

INVESTMENT ADVISER BROCHURE

Sterling Bay Capital Advisers, LLC
333 N. Green St., Suite 1100
Chicago, IL 60607
www.sterlingbay.com

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This Investment Adviser Brochure ("**Brochure**") provides information about the qualifications and business practices of Sterling Bay Capital Advisers, LLC ("**Sterling Bay Advisers**") and its affiliates. If you have any questions about the contents of this Brochure, please contact us at (312) 566-4866. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "**SEC**") or by any state authority.

Sterling Bay Advisers is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"). However, such registration does not imply a certain level of skill or training.

Additional information regarding Sterling Bay Advisers is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

No material changes have been made to this Brochure since the last annual update, dated March 30, 2023. Sterling Bay Advisers routinely makes changes throughout its Brochure in an effort to improve and clarify the description of its and its affiliates' business practices and compliance policies and procedures or in response to evolving industry and firm practices.

We encourage all recipients to read this Brochure carefully in its entirety.

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ITEM 4 ADVISORY BUSINESS

Sterling Bay Capital Advisers, LLC, a Delaware limited liability company and a registered investment adviser ("**Sterling Bay Advisers**"), and its affiliated investment advisers provide investment advisory services to private investment funds.

Sterling Bay Advisers' clients include the following:

- **STERLING BAY CAPITAL PARTNERS I, LLC ("Fund I");**
- **STERLING BAY CAPITAL PARTNERS II, LP and SBCP II QUALIFIED PURCHASERS, LP (collectively, "Fund II");**
- **STERLING BAY CAPITAL PARTNERS III, LP and SBCP III – AI, LP (collectively, "Fund III"); and**
- **STERLING BAY CAPITAL PARTNERS IV, LP ("Fund IV")**

(each, a "**Fund**," and together with any future private investment fund to which Sterling Bay Advisers or its affiliates provide investment advisory services, including any parallel investment fund, alternative investment vehicle, Single-Asset Fund (defined below), or Co-Invest Fund (defined below), the "**Funds**"). From time to time, Sterling Bay Advisers also provides investment advisory services to private investment funds which are formed to make investments in a single asset (each, a "**Single-Asset Fund**"). An affiliate of Sterling Bay Advisers serves as managing member of the Single-Asset Fund and in some cases, a Fund holds an interest in such managing member and therefore indirectly holds an interest in the Single-Asset Fund. Investors in the Single-Asset Funds include third party investors that have made their investments through third-party crowd sourcing platforms.

The following are other investment advisers affiliated with Sterling Bay Advisers:

- **STERLING BAY CAPITAL MANAGEMENT, LLC;**
- **STERLING BAY CAPITAL PARTNERS II GP, LLC;**
- **STERLING BAY CAPITAL PARTNERS III GP, LLC; and**
- **STERLING BAY CAPITAL PARTNERS IV GP, LP**

(and the general partners of any Single-Asset Fund, together with any future general partner or managing member of a Fund are collectively the "**General Partners**", each, a "**General Partner**" and together with Sterling Bay Advisers and its affiliated entities, "**Sterling Bay**").

Each General Partner is registered under the Advisers Act pursuant to Sterling Bay Advisers' registration in accordance with SEC guidance. This Brochure describes the business practices of Sterling Bay Advisers and each General Partner, all of which operate as a single advisory business.

In addition, from time to time, Sterling Bay has provided and may in the future provide (or agree to provide) certain employees or affiliates, existing investors or other third parties the opportunity to participate in co-invest vehicles ("**Co-Invest Funds**") that invest alongside a particular Fund (such primary investing entity, a "**Primary Fund**") or in certain Fund investments, including in the managing member of the entity holding the Fund investment. Sterling Bay expects any such Co-Invest Fund typically will make and dispose of its investments at substantially the same time and on the same terms as the Primary Fund making the investment. However, from time to time, for strategic and other reasons, a Co-Invest Fund vehicle has the potential to purchase a portion of an investment from a Primary Fund. See Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading", for additional information regarding co-investment arrangements.

The Funds are real estate private equity funds and invest through negotiated transactions directly or indirectly in real estate and real estate-related assets, which Sterling Bay believes present attractive investment, development, redevelopment or repositioning opportunities. Real estate-related assets include any investment opportunity with a real estate component. Examples include, without limitation: (i) debt and securities, such as interests in real estate companies or debt instruments secured by real estate, (ii) other personal property with a real estate component, such as outdoor advertising signage, (iii) residential property, such as single-family homes, or (iv) operating businesses which have real estate holdings that Sterling Bay believes present an opportunity for expansion, sale or repositioning.

Sterling Bay's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such

investments. Investments are made predominantly through limited liability companies or other entities and often alongside third-party joint venture partners.

Generally, Sterling Bay maintains day-to-day control of the limited liability companies or other entities through which the Funds hold their interests in the real estate or real estate-related assets. In certain instances, the Fund is a minority owner, and the limited liability companies or other entities through which the Fund holds its interests are controlled by such Fund's joint venture partner. Whether a Fund is a controlling or minority owner, Sterling Bay's personnel manage, develop and control the real estate or real estate-related assets.

Sterling Bay Advisers' advisory services for each Fund are detailed in the applicable private placement memorandum, limited partnership agreement and/or operating agreement for such Fund (the "**Governing Documents**"). The services of Sterling Bay Advisers are also further described below under Item 8 "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds participate in the overall investment program for the applicable Fund, but could from time to time be excluded from a particular investment due to legal, regulatory or other applicable constraints.

The Funds or the General Partners may enter and have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the applicable Fund's limited liability company operating agreement or limited partnership agreement, as applicable, or an investor's subscription agreement. Such rights or alterations could be regarding economic terms, fee structures, excuse rights, information rights, co-investment rights, or transfer rights. Certain side letters are likely to confer benefits on the relevant investor at the expense of the relevant Fund or of investors as a whole, including in the event that a side letter confers additional reporting, information rights and/or transfer rights, the costs and expenses of which are expected to be borne by the relevant Fund. For the most part, any rights established or any terms altered or supplemented will govern only the investment of the specific investor and not the terms of the Fund as a whole.

As of December 31, 2023, Sterling Bay Advisers managed \$586,320,816 in client assets on a discretionary basis. Sterling Bay Advisers does not manage any client assets on a non-discretionary basis. Sterling Bay Advisers' principal owner is Andrew Gloor, whose ownership is held through Gloor Holdings, LLC, Sterling Bay, LLC and Sterling Bay Holdings Group, LLC.

Sterling Bay Advisers launched its investment advisory businesses in 2013 with the formation of its first Fund, but has been engaged in real estate business ventures for substantially longer, with activities dating back to the 1980s.

ITEM 5 FEES AND COMPENSATION

Sterling Bay receives remuneration for investment advisory services provided to the Funds (the "**Investment Advisory Compensation**") and other services performed for the Funds or the Funds' investments (the "**Service Compensation**"). Except as otherwise described in the applicable Governing Documents, fees and expenses are expected to be paid over the term of the applicable Fund, and investors generally are not permitted to withdraw or redeem interests in the Funds. While the Investment Advisory Compensation, the Service Compensation and expenses paid by the Funds are generally described below, existing and prospective investors should refer to a Fund's Governing Documents for further details regarding any Investment Advisory Compensation, Service Compensation or expenses paid by such Fund.

The Investment Advisory Compensation is made up of the following forms of compensation:

1. Sterling Bay Advisers receives an asset management fee from investors in Fund II, Fund III, Fund IV, and certain Single-Asset Funds (the "**Asset Management Fee**"). The Asset Management Fee that certain fee-paying investors in Fund II pay generally equals (a) during the investment period, 2% of such investor's capital commitment, and (b) after the investment period (or the occurrence of other events specified in the applicable Governing Documents), 2% of the difference between (i) the aggregate amount funded by such investor to make investments (including expenses directly attributable thereto) and an allocable share of all amounts committed by the General Partner to the Fund's investments (including follow-on investments) and (ii) all amounts specified in clause (i) attributable to investments which have been completely sold or written off, in each case payable quarterly in advance until the termination of Fund II. Certain preferred investors in Fund II do not pay an Asset Management Fee. The Asset Management Fee that investors in Fund III pay generally equals (a) during the investment period, 1.25% per annum of an amount equal to such investor's commitment, and (b) after the Investment Period, 1.25% per annum of the sum of (i) with respect to each investment the General Partner has determined is not an established property (a "**Stable**

Asset") as of the date of acquisition (an "**Opportunistic Property**"), such investor's capital contributions invested in such Opportunistic Property plus (ii) with respect to each Opportunistic Property that has been treated as a converted asset, together with a Stable Asset (a "**Core Asset**"), the greater of (x) such investor's capital contributions invested in such Core Asset and (y) the net asset value of such investor's interest in such Core Asset (as determined in accordance with Sterling Bay's valuation policy). The Asset Management Fee in Fund III is paid quarterly in advance. The Asset Management Fee that investors in Fund IV pay generally equals (a) during the investment period, 1.0% per annum of an amount equal to such investor's contributions and not less than \$375,000 per quarter, and (b) after the Investment Period, 1.0% per annum of an amount equal to such investor's contributions. The Asset Management Fee in Fund IV is paid quarterly in advance. Sterling Bay Advisers also receives an Asset Management Fee from investors investing in certain Single-Asset Funds. The Asset Management Fee such investors in the Single-Asset Funds pay typically equals 1% of such investor's capital commitment and is payable quarterly in advance. The Asset Management Fee will commence as of the initial closing date, regardless of when an investor is actually admitted to Fund II, Fund III, Fund IV or the Single-Asset Fund, as applicable, and will be paid out of distributions or from drawdowns of commitments. Installments of the Asset Management Fee payable for any period other than a full quarterly period are adjusted on a pro rata basis according to the actual number of days in such period. Except where the Governing Documents expressly provide otherwise, Asset Management Fees will not be reduced (in whole or in part) in the case of partial distributions or partial sales of assets.

2. In lieu of an asset management fee from Fund I, Fund I reimburses Sterling Bay Advisers for certain costs incurred by Sterling Bay in connection with the operation of Fund I, including, but not limited to, a reasonable allocation of the following costs and expenses: (a) payroll and other costs of management, administrative and clerical personnel, including salaries, wages, payroll taxes, bonuses, costs of employee benefit plans and temporary office help expenses; (b) accounting and bookkeeping costs; (c) insurance premiums and fees; (d) rent, utilities, office supplies, subscriptions and other office overhead; and (e) other similar administrative expenses. The reimbursements are made quarterly in arrears until the termination of Fund I.
3. The General Partners receive carried interest from their respective Funds (the "**Carried Interest**"). The structure of the Carried Interest compensation varies from Fund to Fund. The General Partner of Fund I receives a Carried Interest with respect to Fund I ranging from 25%-60% of all realized profits subject to an 8% annually compounding preferred return, as more fully described in the operating agreement of Fund I. With respect to certain limited partners, the General Partner of Fund II generally receives a Carried Interest ranging from 25%-50% of all realized profits subject to a 7% annually compounding preferred return, as more fully described in the partnership agreement of Fund II. With respect to certain investors that subscribed for a preferred commitment in Fund II, the General Partner of Fund II is not entitled to receive carried interest. The General Partner of Fund III generally receives a Carried Interest ranging from 25%-50% of all realized profits from Opportunistic Properties subject to a 7% annually compounding preferred return and 20% of all realized profits from the fund's portfolio of core and core-plus assets subject to a 10% annually compounding preferred return. With respect to certain investors that subscribed for a commitment in Fund III of a certain minimum amount through CrowdStreet, such investors will be entitled to receive a preferred return equal to 9%. The General Partner of Fund IV generally receives a Carried Interest ranging from 25%-45% of all realized profits subject to a 9% annually compounding preferred return, as more fully described in the partnership agreement of Fund IV. The managing members of certain of the Single-Asset Funds also receive Carried Interest from the Single-Asset Funds, which Carried Interest ranges from 15%-70% of all realized profits subject to a preferred return as set forth in more detail in the Governing Documents of the Single-Asset Funds. In each Fund, the Carried Interest is subject to a potential giveback at the end of life of each Fund if the applicable General Partner has received excess cumulative distributions, as more specifically described within each Fund's operating agreement or partnership agreement, as applicable. Sterling Bay has and may in the future exempt certain principals, employees, consultants and certain service providers from payment of all or a portion of Investment Advisory Compensation and/or Carried Interest on their direct or indirect investment in one or more Fund.

In certain circumstances, the Funds or underlying investment properties of the Funds retain Sterling Bay to provide any or all of the services that would otherwise be performed by third parties and pay Service Compensation for such services. The Service Compensation consists of all compensation for services other than investment advisory services that Sterling Bay provides to the Funds or the Funds' underlying investments. The Service Compensation will only be paid when earned and not all of the types of Service Compensation described herein and the associated

services will apply to each Fund or investment. Depending on the nature of the Service Compensation, the payment might be made by a Fund or by an investment, in which case the Fund indirectly bears the cost of such Service Compensation. The following are examples of the types of services provided and the methods for calculating Service Compensation:

1. Sterling Bay provides property management services to the Funds' underlying investments. In exchange for those services, Sterling Bay receives reimbursement for the allocation of all or a portion of Sterling Bay property management, accounting and engineering employees' and other overhead expenses connected to the management of the Funds' underlying investments plus a property management fee paid monthly, which is typically a percentage of gross revenue from the property subject to a minimum amount. Sterling Bay is permitted to subcontract all or a portion of the performance of the property management services to independent service providers, in which case the independent service providers will be paid out of the property management compensation paid to Sterling Bay.
2. Sterling Bay provides construction, development or entitlement management fees for construction, development or entitlement management services provided by Sterling Bay for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a percentage of hard and construction-related soft costs or project costs paid monthly upon commencement through completion of the construction, development or entitlement. Sterling Bay is permitted to subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.
3. Sterling Bay provides development or entitlement management services for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a percentage of project costs paid monthly upon commencement through completion of construction. Sterling Bay is permitted to subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.
4. Sterling Bay provides general contractor services for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a fee equal to a percentage of the cost of the supervised work, inclusive of overhead and profit. Sterling Bay is permitted to subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.
5. Sterling Bay provides real estate leasing, acquisition and disposition brokerage services for the Funds' underlying investments. In exchange for such services, Sterling Bay receives fees for successful leases, purchases and sales. For office leases, Sterling Bay typically receives an amount per rentable square foot per year of lease term inclusive of the commissions paid to outside brokers representing landlord, but exclusive of the commissions paid to outside brokers representing potential tenants. For retail and industrial leases, Sterling Bay typically receives a percentage of total rent paid during lease term, inclusive of the commissions paid to outside brokers representing landlord but exclusive of the commissions paid to outside brokers representing potential tenants. For acquisitions, Sterling Bay typically receives a percentage of the gross purchase price, inclusive of any commissions paid to brokers representing the buyer but exclusive of the commissions paid to outside brokers representing the seller, paid upon purchase. For dispositions, Sterling Bay typically receives a percentage of the gross purchase price, inclusive of any commissions paid to brokers representing the seller but exclusive of the commissions paid to outside brokers representing the buyer, paid upon sale.
6. Sterling Bay provides mortgage brokerage services for the Funds' underlying investments. In exchange for such services, Sterling Bay receives a fee for successful mortgage financing and refinancing services, which fee is a percentage of the total loan proceeds subject to a minimum.
7. Sterling Bay provides asset management services for the Funds' underlying investments owned through joint ventures or Single-Asset Funds. In exchange for such services, Sterling Bay receives a fee equal to a percentage of gross receipts of the investment subject to a minimum or a monthly flat fee.
8. Sterling Bay expects to provide marketing, information technology, legal, design and architecture services to the Funds' underlying investments. In exchange for such services, Sterling Bay receives

a fee at the then-current hourly rates for such services, as determined in the sole discretion of Sterling Bay.

In such events, Sterling Bay will earn fees or be reimbursed for performing such services subject to certain specified rates or the rates that would be otherwise payable by the Funds if such services were provided by third parties on an arms' length basis as generally detailed in the Funds' Governing Documents. Furthermore, the fees for services provided to a particular Fund or Fund subsidiary by Sterling Bay could be higher than those charged by Sterling Bay to another Fund or Fund's subsidiary or investment managed by or affiliated with Sterling Bay. Any Services Compensation will not offset or reduce the Asset Management Fee. Although Sterling Bay will adhere to any restrictions set forth in a Fund's Governing Documents, Sterling Bay has a conflict of interest in determining the costs of such services that will be charged to the Funds. In addition, Sterling Bay has an incentive to favor their affiliates over more qualified service providers. In the event Sterling Bay does not provide a particular service outlined in Service Compensation, a Fund bears the cost, directly or indirectly through its interest in an investment, of any third party engaged to provide such services. Sterling Bay is not limited to earning only the types of Service Compensation described above. Existing and prospective investors should refer to the applicable Governing Documents for further details regarding Service Compensation, including the expected rates for such services.

Sterling Bay sold a majority interest in its property management business ("**SB Property Management**") to an unaffiliated third party real estate firm ("**Third Party Firm**"). In connection with the transaction, Sterling Bay and SB Property Management entered into a master services agreement whereby for a term of ten years SB Property Management will be the exclusive provider of property management and associated construction management services for all existing and future properties owned and controlled by Sterling Bay and any affiliate, including the Funds. Sterling Bay and the Third Party Firm entered into a preferred provider agreement whereby Sterling Bay has designated the Third Party Firm as its preferred provider of leasing and subleasing brokerage services, loan brokerage services, investment sales brokerage services, consulting services, appraisal services and environmental reports (collectively, "**Preferred Provider Services**"). Pursuant to the preferred provider agreement, Sterling Bay will deliver to the Third Party Firm a supermajority of Preferred Provider Services and Sterling Bay will receive a portion of all revenue received by Third Party Firm with respect to any Preferred Provider Services, including those provided to any properties owned and controlled by Sterling Bay and any affiliate, including the Funds. Any amounts received by Sterling Bay, SB Property Management or the Third Party Firm in connection with any property management and associated construction management services and any Preferred Provider Services will not offset or reduce the Asset Management Fee. In addition, the Third Party Firm will, subject to certain opt-out rights, invest in project-level managing members alongside one or more Sterling Bay general partner vehicles and receive its pro rata portion of the project level promote in connection with such investment.

Sterling Bay Advisers intends for transactions between the Funds and/or the Funds' subsidiaries, on the one hand, and Sterling Bay, on the other hand, to be on reasonable terms as determined by Sterling Bay in its sole good faith judgment. However, Sterling Bay does not intend to obtain market surveys of similar fees or third-party opinions of reasonableness as to the terms of the transactions between the Funds and/or the Funds' subsidiaries and Sterling Bay. However, in some instances, Sterling Bay will, in its sole discretion, decide to obtain such third-party opinions of reasonableness with respect to certain terms of such transactions. Further, although Sterling Bay Advisers could present transactions to an advisory board established under a particular Fund's Governing Documents for such advisory board's review prior to the Fund's commitment to such transactions, Sterling Bay Advisers is under no obligation to do so. More favorable terms for such transactions could be available to the Funds if the Funds and the Funds' subsidiaries engaged third parties without any affiliation to Sterling Bay. Investors in the Funds consent to such transactions with Sterling Bay prospectively by virtue of their investment. See Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for further information regarding affiliated transactions.

Other Information

In addition to the Investment Advisory Compensation and the Service Compensation, each Fund bears all of the fees, costs, expenses, liabilities and obligations relating to the Fund and/or its activities or investments (to the extent not paid by or reimbursed by a subsidiary or an investment). Each Fund's Governing Documents set forth the particulars of such operating expenses that will be borne by the Fund, but such operating expenses could include but are not limited to the following fees, costs, expenses, liabilities and obligations relating or attributable to:

- activities with respect to the developing, structuring, organizing, negotiating, consummating, financing, acquiring, owning, managing, monitoring, operating, hedging, leasing, marketing (including events, sponsorships, donations and programming), servicing, liquidating, or otherwise disposing of, subsidiaries and a Fund's actual and potential investments, whether consummated, including

extraordinary expenses and fees, costs, expenses, liabilities or obligations relating to any alternative investment vehicles or feeder funds, reverse break up, termination and other similar fees;

- indebtedness of, or guarantees made by the Funds or Sterling Bay on behalf of the Funds;
- broker, dealer, finder, underwriting, loan administration, private placement fees, sales, commissions, investment banker, finder and similar services, as well as brokerage, sale, custodial, depositary, record keeping, account and similar services;
- legal (whether in-house or third-party), accounting, research, auditing, administration, information, appraisal, advisory, valuation, real estate title, survey, appraisal, environmental, property management, leasing, development, mortgage brokerage, construction management, hedging, consulting (including consulting and retainer fees and other compensation), tax, third party experts and other professional fees;
- insurance and regulatory expenses (including for directors and officers and errors and omissions), and any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of the Fund (other than any such taxes, fees and other charges reimbursed by an investor or deemed distributed to the investors pursuant to the partnership agreement);
- filing, title, transfer, registration and other similar fees and expenses, as well as the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax information, Schedules K-1, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), including the fees and costs of any third-party services providers and professionals related to the foregoing;
- printing, communications, marketing and publicity as well as developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting reports (including subscription-based services) for the benefit of the Funds or investors;
- activities or proceedings of the Advisory Board (including any costs and expenses in attending meetings) as well as any periodic meetings of investors;
- indemnification, actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered in connection therewith, governmental inquiry, investigation or proceeding involving the Funds;
- the termination, liquidation, winding up or dissolution of a Fund, defaults by investors in the payment of any capital contributions, unreimbursed costs and expenses incurred in connection with any transfer by an investor, distributions to investors and other expenses; and
- any travel (including the use of private aircraft owned or partially owned by Sterling Bay, any of its affiliates or any of their respective owners) at a cost above the cost of first class commercial airfare (and first and business class commercial travel), lodging, meals or entertainment related to any of the foregoing.

Brokerage fees will be incurred in accordance with the practices set forth in Item 12 below, "Brokerage Practices."

Sterling Bay and its personnel can also be expected to receive certain intangible and/or other benefits arising or resulting from their activities on behalf of the Funds, which will not be subject to Asset Management Fee offsets or otherwise shared with the Funds, their investors and/or the investments. For example, airline travel or hotel stays incurred as fund expenses will likely result in "miles" or "points" or credit in loyalty or status programs, and such benefits will accrue exclusively to Sterling Bay and its personnel (and not to the Funds, their investors and/or the investments) even though the cost of the underlying service is borne directly by the Funds or their investments and indirectly by the investors in the Funds. Further, from time to time, certain employees of Sterling Bay may receive rent discounts at residential buildings owned by a Fund or may receive access to, or discounts for, accommodations located on properties owned by a Fund or managed by Sterling Bay.

With respect to Co-Invest Funds, fees received and expenses borne are expected to be negotiated on a vehicle-by-vehicle basis, but could include any or all of the types of fees and expenses described above. Subject to the provisions of any applicable Governing Documents, Sterling Bay expects pursuit costs and due diligence costs incurred in conjunction with possible co-investments generally will be paid solely by the Primary Fund and will not be shared by co-investors or joint venture partners, except that a pro rata share of pursuit and due diligence costs could be allocated to a single purpose Co-Invest Fund when a transaction is consummated or if the Co-Invest Fund is established by the time the deal breaks. In certain cases, potential co-investors will not bear any subscription credit facility fees and expenses, which are generally allocated entirely to the primary Fund that is the borrower under such facility. In addition, in certain cases, a Fund will bear expenses in respect of an existing or prospective investments that will not be borne by other owners or investors in such investment (including co-investors or Co-Invest Funds), where Sterling Bay has determined such arrangement to be in the best interest of such Fund (e.g., a Fund engages or pays for a consultant for services in respect of an investment without reimbursement by other owners of the investment). Fees received by Sterling Bay relating to a Co-Invest Fund do not offset the Investment Advisory Compensation or Service Compensation paid to Sterling Bay by the Primary Fund.

Sterling Bay has and may in the future, in its sole discretion, waive all or a portion of Investment Advisory Compensation for any investor, including but not limited to principals and employees of Sterling Bay and certain "preferred" investors.

After payment of all overhead and expenses, principals and other employees (past and present) will receive residual portions of the Investment Advisory Compensation and Service Compensation.

The expenses described above are detailed, but do not include every possible expense a Fund will incur. Investors should review the applicable Fund's Governing Documents for further details.

ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As described in Item 5 "Fees and Compensation", Sterling Bay receives a carried interest allocation on certain realized profits in the Funds. Sterling Bay has and may in the future, in its sole discretion, waive or reduce the Carried Interest with respect to certain persons as described above.

The fact that the Carried Interest is based on a percentage of net profits could create an incentive for Sterling Bay to cause the Funds to make riskier or more speculative investments or could otherwise affect the timing of investment dispositions and/or financings. In addition, the method of calculating the Carried Interest poses potential conflicts of interest between a General Partner and a Fund with respect to the management and disposition of investments, as well as the determination of the timing, method and amount of distributions by a Fund, and the use of Fund-level credit facilities.

ITEM 7 TYPES OF CLIENTS

Sterling Bay Advisers provide investment advice to Funds, including Fund I, Fund II, Fund III, Fund IV, Co-Invest Funds and Single-Asset Funds. Funds (including Single-Asset Funds and Co-Invest Funds) include investment partnerships or other investment entities formed under domestic laws and operated as exempt investment pools under the Investment Company Act. The investors participating in Funds can include high net-worth individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and will likely include, directly or indirectly, principals or employees of Sterling Bay.

ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Sterling Bay is an entrepreneurial, full-service real estate investment, development and management company. Sterling Bay's principals have significant experience identifying and evaluating real estate and hospitality opportunities. With an extensive network of relationships and diverse in-house resources, Sterling Bay has access to, and the capacity to execute, unique real estate and hospitality investment opportunities.

There can be no assurance that Sterling Bay Advisers will achieve the investment objectives of the Funds and a loss of investment is possible.

Investment and Operating Strategy

The Funds pursue an investment strategy that involves: (i) opportunistic or strategic acquisitions, (ii) appropriate capital partners and debt levels, (iii) development, redevelopment or creative repositioning, (iv) recapitalization, (v) variable hold periods, and (vi) timely exits. The Funds seek to acquire direct or indirect interests in real estate or real estate related assets (including without limitation debt and equity securities and other personal property), which it believes present attractive investment, development, redevelopment or repositioning opportunities. The Funds target investments in major urban centers in the U.S., including but not limited to Boston, Washington D.C., Miami, Los Angeles, Salt Lake City, San Francisco, San Diego, Nashville, Denver, Boulder, Durham, Seattle, Portland, Dallas, Austin and Chicago. The Funds typically invest in real estate or real estate-related assets through joint venture entities alongside third-party joint venture partners. The Funds use Sterling Bay's extensive network of contacts and relationships throughout the real estate industry to source, improve and dispose of investments. Sterling Bay provides value-add development, management and leasing services to the Fund's investments. The Funds pursue multiple exit strategies, designed to capitalize on the particular attributes of each investment and Sterling Bay's transactional capabilities.

Risks of Investment

Each Fund and its investors bear the risk of loss that the Sterling Bay investment strategy entails. The discussion below enumerates certain risk factors that apply generally to an investment in a Fund (and for the sake of reading clarity, generic references to "the Fund" and "the General Partner" are used rather than a specific fund, general partner or management entity name). Prior to making any investment in a Fund, investors should review the applicable Fund's private placement memorandum (or similar disclosure document) for additional information regarding risks and conflicts of interest specific to each Fund.

General Risks

Business Risks; Nature of Investments. Based on the Fund's strategy, operating results in a specified period will be difficult to predict. Fund investments involve a high degree of business and financial risk that can result in substantial losses. The investments to be made by the Fund are speculative in nature and the possibility of partial or total loss of capital will exist. Investors should not subscribe or invest in the Fund unless they can readily bear the consequences of such loss.

Future and Past Performance. The performance of the prior investments is not necessarily indicative of the Fund's future results. While the General Partner intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

Concentration of Investments. The Fund will participate in a limited number of investments and intends to make most of its investments in certain regions or sectors within a short period of time. A Single-Asset Fund in particular generally only holds a single asset. As a result, the Fund's investment portfolio could become highly concentrated, and the performance of one or a few holdings or of one or a few particular regions or sectors could substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Fund could invest in fewer real estate and real estate-related assets and thus be less diversified.

Lack of Sufficient Investment Opportunities; Competition. The business of identifying, structuring and completing and realizing on appropriate investments is highly competitive and involves a high degree of uncertainty. It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, investors will be required to bear Asset Management Fees during the investment period based on the entire amount of the investors' capital commitments and other expenses as set forth in the partnership agreement. In addition, it is possible that a Fund will acquire interests in properties or entities that are in competition with properties or entities owned by other Funds.

Illiquidity; Lack of Current Distributions. An investment in the Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments have the potential to be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment can be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there could be no current return on the investment. Furthermore, the expenses of operating the Fund (including any Investment Advisory Compensation payable to Sterling Bay) has the potential to exceed its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded capital commitments.

Leveraged Investments. The Fund is permitted to employ leverage in the acquisition, operation and ownership of its investments and can refinance its investments, if desirable. Debt could take the form of mortgage or other financing at the property level or ownership level. Such use of leverage generally magnifies the Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets could be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it could be difficult to obtain or maintain the desired degree of leverage. The use of leverage by the Fund will also result in interest expense and other costs to the Fund that cannot be covered by distributions made to the Fund or appreciation of its investments. Leveraged investments will be subject to restrictive financial and operating covenants and the Fund will often provide guarantees in order to secure such leverage. In the event an investment cannot generate adequate cash flow to meet debt service, the Fund will suffer a partial or total loss of capital invested in the investment, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be limited or costly at the time the Fund determines that it is desirable to sell all or a part of an investment, there is the potential that the Fund will not achieve an exit capitalization rate consistent with its forecasts. The Fund could also borrow money or guaranty indebtedness (such as a guaranty of an investment's debt). The Fund could incur leverage on a joint and several basis with one or more other investment funds and entities managed or advised by the General Partner or any of its affiliates and potentially have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent the Fund incurs leverage (or provides such guaranties), such amounts could be secured by capital commitments made by the Fund's investors and such investors' contributions could be required to be made directly to one or more lenders instead of the Fund.

Nature of Preferred Equity Investments. In connection with an investor's agreement to subscribe for preferred equity limited partner interests in a Fund (the "**Preferred Interests**"), these Preferred Interests, by the nature of the capital structure of these interests, will involve a high degree of financial risk. These securities will be unsecured. In addition, these Preferred Interests will not be protected by all the financial and other covenants and limitations that would be typical for secured loans. These investments often reflect a greater possibility that adverse changes in the financial condition of a Fund and its investment objectives or in general economic conditions or both may impair the ability of a Fund to make distributions.

Covenants and Restrictions. With respect to the applicable Fund with Preferred Interests and notwithstanding anything to the contrary in the applicable Fund's partnership agreement (or other operating document), the following actions or items shall require the affirmative consent of a majority of the qualified investors holding Preferred Interests (individually, a "**Preferred Limited Partner**" and, collectively, the "**Preferred Limited Partners**"), unless required by applicable law, regulation, rule or judicial or administrative order (collectively "**Major Decisions Rights**"); provided that such consent shall not be required to the extent necessary to satisfy any liquidity or similar covenants in the governing agreements in respect of any existing indebtedness of the Fund or any assets of the Fund:

- (a) The General Partner causing the Fund or any of the Fund's direct or indirect subsidiaries which the Fund controls to assign for the benefit of creditors or admit in writing the inability of the Fund or any of its direct or indirect subsidiaries to pay their debts generally as they become due or petition or apply to any tribunal for the appointment of a custodian, trustee, receiver or liquidator for the Fund or any of the Fund's direct or indirect subsidiaries or of any substantial part of the assets, or commence (or acquiesce to) any proceeding relating to the Fund or any of its direct or indirect subsidiaries under any bankruptcy, reorganization, arrangement insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction;
- (b) The General Partner issuing calls for additional capital contributions from investors;
- (c) A change in control of the General Partner or the termination of the Fund's management agreement;
- (d) The General Partner offering additional preferred interests in a Fund after the end of a Fund's respective fundraising period or offering any other interests in a Fund;
- (e) The General Partner causing a Fund or any of its direct or indirect subsidiaries to purchase any additional real property; and
- (f) The General Partner recycling otherwise distributable proceeds.

As a result of the Major Decision Rights of the Preferred Limited Partners, Sterling Bay may be in a position where the consent of a Majority of the Preferred Limited Partners is required in order to cause the Fund or its controlled subsidiary to take an action that it believes is in the best interest of the Fund and the Preferred Limited Partners can

consent or withhold their consent to such action in their sole discretion. If the Preferred Limited Partners withhold their consent to a request of Sterling Bay, it could have an adverse effect on the Fund, its assets and the interests of the other investors.

Subordination of Preferred Interests to Indebtedness and Future Senior Securities. The Preferred Interests will be equity interests and will not constitute indebtedness. As such, the Preferred Interests will rank junior to the applicable Fund's existing and future indebtedness or guarantees. The Preferred Interests may also be subordinated and rank junior to any additional senior securities that the applicable Fund may issue in the future in accordance with its partnership agreement (or other operating document). In the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding, the applicable Fund's assets will be available to pay obligations on the Preferred Interests only after all of the applicable Fund's consolidated liabilities and any amounts owing to holders of any indebtedness and/or senior securities (if any) have been paid. In the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding, there may not be sufficient assets remaining, after paying the applicable Fund's liabilities and any amounts owing to holder of any indebtedness and/or senior securities that may be issued in the future, if any, to pay amounts due on any or all of the Preferred Interests then outstanding.

Future offerings of debt or senior equity securities may adversely affect any Fund's Preferred Interests. If Sterling Bay decides to cause a Fund to enter into indebtedness or guarantees or issue equity securities in the future, it is possible that these securities will be governed by an instrument containing covenants restricting a Fund's operating flexibility. Additionally, any future indebtedness or guarantees or securities that the Fund issues in the future may have rights, preferences and privileges more favorable than those of any Preferred Interests and may result in direct or indirect dilution to owners of the Preferred Interests. A Fund and, indirectly, the investors of that Fund, will bear the cost of issuing and servicing such securities. Because Sterling Bay's decision to enter into indebtedness or guarantees or issue equity securities in a Fund in the future will depend on market conditions and other factors beyond its control, Sterling Bay cannot predict or estimate the amount, timing or nature of its future offerings. Thus, holders of the Preferred Interests will bear the risk of future offerings diluting the value of their holdings in a Fund.

Distributions to Preferred Limited Partners. Within the applicable Fund with Preferred Interests, Preferred Limited Partners will have priority over distributable proceeds until a specified distribution amount (such amount, the "**Minimum Preferred Return**"). A Fund's ability to make distributions sufficient to satisfy the Preferred Limited Partners' Minimum Preferred Return and payments on the Fund's indebtedness or guarantees will depend on the Fund's ability to generate distributable proceeds in the future. Sterling Bay cannot guarantee that the Funds will generate sufficient cash flow from their investments to satisfy the Preferred Limited Partners' Minimum Preferred Return and pay a Fund's indebtedness or guarantees or fund a Fund's other liquidity needs from time to time.

Conflicts between investors and Preferred Limited Partners. Investors and Preferred Limited Partners have different return profiles with respect to a Fund's investments (due to, most notably, the distribution priority to the Preferred Limited Partners until the Preferred Limited Partners receive the Minimum Preferred Return), thereby resulting in Sterling Bay potentially taking into account the Preferred Limited Partners' views over other investors' views or vice versa. Additionally, a Fund's General Partner is entitled to receive carried interest from the non-Preferred Limited Partners pursuant to the applicable Fund's partnership agreement; thus, the General Partner's interest may not be fully aligned with the Preferred Limited Partners and the General Partner may be incentivized to make decisions that it would not have otherwise if not for the existence of the carried interest. It is important to note that given the current value of a Fund's investments and the Preferred Limited Partners distribution priority, it is highly unlikely that a Fund's General Partner will ever be entitled to receive carried in respect of the investors.

Limited Transferability of Fund Interests. There will be no public market for the Fund interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under the partnership agreement (or other operating agreement) and applicable securities laws. In general, withdrawals of such interests are not permitted and Fund interests are not redeemable.

Secondary Transactions. Sterling Bay could propose to the Fund's limited partner advisory board or investors one or more transactions that would enable such investors to monetize or restructure all or a portion of their interests in the Fund, including through the use of a continuation vehicle (each such, transaction, a "Secondary Transaction"). The sale of an investment to a continuation vehicle could result in certain investors, the General Partner and/or members of Sterling Bay (including employees and affiliates) disposing of their investments in the underlying assets at a different time than some or all investors of the Fund and otherwise taking actions with respect to such investments that are different than the actions taken by other investors. Sterling Bay could be subject to other conflicts of interests in connection with a Secondary Transaction, including with respect to investment valuations, allocation of fees and expenses and the offering of investment opportunities to the Fund and co-investors.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for Fund investments, and hence, most of the Fund's investments will be difficult to value. Certain investments have the potential to be distributed in kind to the investors and it could be difficult to liquidate such investments received at a price or within a time period that is determined to be ideal by such investors. After a distribution of an investment is made to the investors, investors could decide to liquidate such investment within a short period of time, which could have an adverse impact on the price of such investment. The price at which such investment will be sold by such investors could be lower than the value of such investment determined pursuant to the partnership agreement, including the value used to determine the amount of any carried interest available to the General Partner with respect to such investment.

Reliance on the General Partner. Control over the operation of the Fund will be vested with the General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the principals. In addition, the General Partner will rely on affiliates of the General Partner for property management, leasing, development, mortgage brokerage and/or construction management services needed by the Fund. The loss or reduction of service of one or more of the principals could have an adverse effect on the Fund's ability to realize its investment objectives. In addition, the principals currently, and may in the future, manage other investments and/or investment funds besides the Fund and the principals expect to devote substantial amounts of their time to the investment activities of such other investments and/or funds, which will pose conflicts of interest in the allocation of the time of the principals. Investors generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend on the actions of the General Partner. In addition, certain changes in the General Partner or circumstances relating to the General Partner has the potential to have an adverse effect on the Fund or one or more of its real estate and real estate-related assets including potential acceleration of debt facilities.

Hedging Arrangements: Related Regulations. The General Partner is permitted to (but is not obligated to) endeavor to manage the Fund's or any investment's interest rate exposures or other exposures, using hedging techniques where available and appropriate. In such instance, the Fund will incur costs related to such hedging arrangements, which will be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements have the potential to result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject the Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts will expose the Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements have the potential to create for the General Partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. Losses could result to the extent that the CFTC or other regulator imposes limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of the Fund or any investment to hedge its exposures becomes limited by such requirements.

Credit Facility. The Fund is permitted to establish a credit facility with one or more financial institutions (a "**Credit Facility**"). Implementation and utilization of the Credit Facility will result in fees and expenses to the Fund. In order to obtain the Credit Facility, the General Partner expects that (a) it will be required to assign to each such Credit Facility issuer/lender its right to call the undrawn commitments as could be required to honor any Credit Facility draws and/or repay any loans, including any interest accrued thereon, (b) the investors could be required to acknowledge and consent to the assignment of the General Partner's right in respect thereof and (c) the General Partner could be required to assign its rights with respect to defaulting investors for such purpose. If the Fund does not honor its obligations pursuant to the Credit Facility, the provider(s) of the Credit Facility will potentially have the right to take action against any investor or its interest in the Fund, including directly drawing capital from the investors. Investors could also be required to deliver opinions and other documents to the lenders in connection with such Credit Facility, at the investor's own expense. Such costs will not be reimbursed by the Fund. It is anticipated that financing terms of any such Credit Facility is expected to contain a number of common covenants that, among other things, might restrict the ability of the Fund to (i) acquire or dispose of assets or businesses, (ii) incur additional indebtedness, (iii) make capital expenditures, (iv) make cash distributions, (v) create liens on assets, (vi) enter into leases, investments or acquisitions, (vii) engage in mergers or consolidations, or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Fund (including its ability to acquire additional assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a Credit Facility would likely require the Fund to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum

net worth and minimum equity capitalization requirements. The Fund could incur indebtedness under such Credit Facility that bears interest at a floating rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable-rate debt.

Services. Sterling Bay expects to provide certain services (including, accounting, legal, administration and other services for a Fund and property management, leasing, development, mortgage brokerage and/or construction management services with respect to a Fund's investments) that the General Partner determines would otherwise be performed for a Fund or its investments by third parties. In such events, such persons will earn fees or otherwise be reimbursed for performing such services; provided that such fees or reimbursements may not exceed the higher of the rates set forth in the applicable Governing Documents unless otherwise consented to by the Advisory Board (such consent not to be unreasonably withheld if the General Partner provides reasonable supporting evidence that such fees are not greater than the rate that would be payable by a Fund or such investment for comparable services provided by third parties on an arm's length basis). Nevertheless, the General Partner will have a conflict of interest in determining the costs of such services that will be charged to the Partnership. In addition, such use or retention creates an incentive for the General Partner to favor its affiliates over more qualified service providers.

Third Party Co-Investment; Reliance on Third-Party Joint Venture Partners and Managers. Certain of the Fund's investments will potentially be made as a co-venturer or partner with the seller of the property, an affiliate of the seller, an investor in the Fund or other third parties (including other investment funds, accounts and clients managed or advised by Sterling Bay). Such investments will involve risks not present in investments where a third party is not involved, including the possibility that: (i) the Fund and such co-venturer will reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of the Fund will at any time have economic or business interests or goals that are inconsistent with those of the Fund; (iii) the co-venturer or partner will encounter liquidity or insolvency issues or become bankrupt; (iv) the co-venturer or partner will be in a position to take action contrary to the Fund's investment objective; (v) the co-venturer or partner will take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances the Fund will be liable for actions of its co-venturers or partners. The co-venturer or partner could be a joint venture partner or interest holder in another joint venture or other vehicle in which Sterling Bay has an interest or otherwise controls. The co-venturer or partner could also be entitled to receive payments from, or allocations or performance-based compensation (e.g., carried interest) in respect of, the Fund as well as such investments, and in such circumstances, any such amounts could be treated as a Fund expense and will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Sterling Bay, be deemed paid to or received by Sterling Bay or reduce the Asset Management Fee. Moreover, Sterling Bay could receive fees associated with capital invested by a co-venturer or partner relating to investments in which the Fund participates. This will be in connection with a joint venture in which the Fund participates or other similar arrangements with respect to assets or other interests retained by a seller or other commercial counterparty with respect to which Sterling Bay performs services. In addition, the Fund is permitted to co-invest with non-affiliated co-investors or partners whose ability to influence the affairs of the investments in which the Fund invests could be significant, and even greater than that of the Fund and as such, the Fund could be required to rely upon the abilities and management expertise of such co-venturer or partner. It could also be more difficult for the Fund to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment could be subject to a buy-sell right). The Fund is permitted to grant co-venturers or partners approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require the Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, the Fund could be unable to fully realize its expected return on any such investment. Further, to the extent that the Fund offers any co-investment opportunity to any investors or third parties, some or all of the risks described above will also apply to such co-investments.

U.S. Taxation of Carried Interest. U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the Funds as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset that generated such gain for more than three years. Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as a Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law are treated as an allocation of the partnership's income (and which may be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that may be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a Fund, its General Partner, or Sterling Bay Advisers who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for the relevant General Partner and its affiliates to incentivize, attract and retain individuals to perform services for a Fund. This creates potential incentives for Sterling Bay Advisers to cause a Fund to hold investments for a longer period than would be the case if such greater-than-three-year holding period requirement did not exist.

Impact of Government Regulation. Government authorities at all levels are actively involved in the regulation of land use and zoning, environmental protection and safety and other matters affecting the ownership, use and operation of real property. Regulations could be promulgated that could restrict or curtail certain usages of existing structures, or require that such structures be renovated or altered in some manner. The promulgation and enforcement of such regulations could increase expenses, and lower the income or rate of return, as well as adversely affect the value of any of the Fund's investments. Operators are also subject to laws governing their relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with, or changes in, these laws could reduce the revenue and profitability of the Fund. Changes in U.S. federal, state, and local or foreign tax law, interpretations of existing tax law, or adverse determinations by tax authorities, could increase the Fund's tax burden or otherwise adversely affect the Fund's financial condition or results of operations. Changes to accounting rules or regulations have the potential to adversely affect the Fund's financial condition. In addition, regulation of the leasing of residential property by many state and local governments includes controls over rents charged to tenants. Such regulations often impose limits on rent increases and will require that properties comply with specified requirements as a precondition for rent increases.

Advisory Board. The General Partner will appoint one or more limited partner representatives to the Fund's advisory board. The advisory board may provide advice, counsel and consents with respect to a Fund. Although the advisory board is intended to act as the representative of the Limited Partners in respect of certain matters, including reviewing valuations of a Fund's assets and addressing potential conflicts of interest, pursuant to the partnership agreement, the Limited Partners will have authorized the advisory board to provide any consent (on behalf of the Limited Partners) required under the Advisers Act, including in connection with any affiliated or conflict transactions or any "assignments" (as that term is defined under the Advisers Act) or as otherwise requested by Sterling Bay, and the advisory board members may not have the same interests as all investors. Furthermore, the advisory board cannot be expected to be an expert in such matters, and certain of its determinations may, in fact, adversely affect the performance of a Fund. In addition, members of the advisory board could have conflicts of interest that do not disqualify them from voting on or consenting to matters submitted for consideration or review. The partnership agreement provides that to the fullest extent permitted by applicable law, none of the advisory board members owe any fiduciary duties to the Fund or any other partner. In addition, representatives of an advisory board could have various business and other relationships with Sterling Bay and its partners, employees and affiliates. These relationships have the potential to influence their decisions as members of the advisory board.

Uninsured Losses. The Fund will likely maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. There are certain types of losses (generally of a catastrophic nature such as those caused by fire, flood, freeze, hail, hurricanes, drought, severe frost, disease, pests, riots and wars) that are uninsurable, not fully insurable or not insurable on economically feasible terms. If such losses occurred to the investment assets, the Fund could lose both its invested capital and profits anticipated therefrom, and the investors could lose their investment, except for the value of the underlying real estate remaining after such event.

Environmental and Contingent Liabilities. The Fund's investments will be subject to various federal, state and local laws, ordinances, regulations and administrative rulings, which, among other things, establish standards for the treatment, storage and disposal of solid and hazardous waste. Under such laws, ordinances, regulations and administrative rulings, an owner of real property could be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Often joint and several liability is imposed on past and present owners and users of real property for hazardous substance remediation and removal costs without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property generally are not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The Fund is permitted to, but is not obligated to, purchase adequate insurance to cover the risk of loss from environmental claims based on environmental problems. The presence of such hazardous substances, or the failure to properly remediate contamination from such hazardous substances, will adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Fund's return from such investment. Also, in connection with the disposition of a property, the Fund will often be required to make representations about any contingent liabilities inherent in the real estate, such as environmental clean-up costs. The Fund will also likely be required to indemnify the purchasers of such property to the extent that any such representations are inaccurate. These arrangements will result in contingent liabilities for which the Fund expects to establish reserves or escrows.

Investment in Distressed Assets. The Fund will potentially make investments that either are or become non-performing or otherwise troubled. These investments could experience financial difficulties that will never be overcome, and there can be no assurance that the Fund's rate of return objectives will be realized or that there will be any return

of capital. The Fund's investments are likely to be subject to the prior interests of a mortgage lender, which could foreclose on its mortgage (and wipe out the Fund's investment) if a mortgage default occurred. Investments in properties operating under the close supervision of a mortgage lender or under certain bankruptcy laws are, in certain circumstances, subject to certain additional potential liabilities, which could exceed the value of the Fund's original investment. In addition, lenders who have inappropriately exercised control over the management and policies of a debtor could have their claims subordinated or disallowed or be found liable for damages suffered by parties as a result of such actions. Investments in properties operating in workout modes or under Chapter 11 of the United States Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities that could exceed the value of the Fund's original investment. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to the investors could be reclaimed if such payments or distributions are later determined to have been fraudulent conveyances or preferential payments. Numerous other risks also arise in the workout and bankruptcy contexts.

Title and Perfection. Matters relating to title to the properties will be insured through a title policy or endorsement thereto from a title company acceptable to the Fund. The coverage offered by the title policy or any particular endorsement could prove to be insufficient to cover the full scope of potential loss intended to be covered by such policy or endorsement. Additionally, the title company insuring any such loss could become insolvent. The existence of these factors could affect a property and have a material and adverse impact on the Fund's financial condition, results of operation and ability to pay distributions to Investors.

Credit Facility; Other Indebtedness. The Funds, or the General Partners on behalf of the Funds, expect to incur indebtedness for any purpose relating to the activities of the Funds. Accordingly, Sterling Bay expects to cause the Funds, directly or indirectly through one or more affiliates, to enter into one or more credit facilities or other lending arrangements (each, a "**Credit Facility**") with one or more lenders or other counterparties. The Funds' obligations under any Credit Facility or any other indebtedness are expected to be secured by a pledge, collateral assignment, mortgage, charge or other security interest in favor of a lender or other credit counterparty of one or more (including potentially all) of the following: (i) capital commitments, (ii) a General Partner's right to call capital from the investors (and the right to receive the proceeds of any capital call) and exercise remedies upon a default by an investor, (iii) all or any portion of a Fund's investments or other assets, in each case, whether individually or on a pooled or cross-collateralized basis, (iv) such other assets, properties, rights, titles, interests, remedies, powers and privileges of a Fund or a General Partner as determined by such General Partner in its discretion, or (v) such other security or collateral as determined by Sterling Bay in its discretion. The Funds have funded, and may in the future fund, the making of investments with proceeds from drawdowns under one or more revolving credit facilities prior to calling capital commitments. The interest expense and other costs of any such borrowings will be borne by the relevant Fund and, accordingly, will decrease net returns of such Fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Fund. In light of the foregoing, Sterling Bay has an incentive to cause such vehicle to borrow in this manner in lieu of drawing down capital commitments, subject to the operating and offering documents of each Fund. In addition, because amounts borrowed under a subscription line typically are secured by pledges of the General Partner's right to call capital from investors, investors could be obligated to contribute capital on an accelerated basis if a Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder.

Cybersecurity and Identity Theft. Sterling Bay, the Funds and their investments generally rely on information technology systems for current and planned operations. Information and technology systems of Sterling Bay and the investments will be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If any systems designed to manage such risks are compromised, become inoperable for extended periods of time or cease to function properly, Sterling Bay, a Fund and/or an investment will have to make a significant investment to fix or replace them. Any disruption in any of these systems or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect a Fund's investment results and its ability to make distributions to its partners. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Sterling Bay's, a Fund's and/or an investment's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Sterling Bay's, a Fund's or an investment's reputation, subject them and their respective affiliates to legal claims and otherwise affect their business and financial performance.

Diseases, Pandemics and Epidemics. The impact of disease and epidemics have had, and may in the future have, a negative impact on Sterling Bay, the Funds and their investments and each of their respective affiliates and the performance and financial position of each of the foregoing. COVID-19 (i.e., the novel strain of coronavirus which

surfaced in December 2019), renewed outbreaks of other epidemics or the outbreak of new epidemics have or could result in health or other government authorities requiring the closure of offices or other businesses and have or could also result in a general economic decline. For example, such events could adversely impact economic activity through disruption in supply and delivery chains. Moreover, the operations of any of the foregoing persons could be negatively affected if personnel are quarantined as the result of, or in order to avoid, exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses could have a material adverse effect on business and results of operations. A resulting negative impact on economic fundamentals and consumer confidence could negatively impact market value, increase market volatility, cause credit spreads to widen, and reduce liquidity, all of which could have an adverse effect on any of the foregoing persons. The ultimate final duration of the business disruption and related financial impact caused by a widespread health crisis cannot be reasonably estimated.

Business Continuity Plans. In the event of unforeseen catastrophic events such as natural disasters, terrorist attacks and epidemics, Sterling Bay will initiate its business continuity plan to safeguard that its employees have the resources and technology necessary to continue their responsibilities and meet investor needs. Sterling Bay is not able to predict the level of disruption that such catastrophic events could have on its operation or the ability of its plan to succeed in a time of crisis. Thus, its business continuity plan has the potential to be insufficient to continue operating Sterling Bay's business as usual in light of such unforeseen circumstances. Any insufficiency in the business continuity plan could cause interruptions in the operations of Sterling Bay, the Funds and their investments, and/or each of their respective affiliates.

Natural Disasters, Geopolitical Events and Similar Dislocations. Upon the occurrence of a natural disaster such as flood, hurricane, or earthquake, or upon an incident of war, riot or civil unrest, the impacted country may not efficiently and quickly recover from such event, which can have a materially adverse effect on portfolio companies and other developing economic enterprises in such country. Terrorist attacks and related events can result in increased short-term economic volatility. The effects of future terrorist acts (or threats thereof), ongoing and future wars (including the ongoing military conflict between Ukraine and the Russian Federation and the Israel-Hamas Conflict, both of which have caused disruption to global financial systems, trade and transport, among other things) or other military actions or similar events on the economies and securities markets of countries cannot be predicted. Such disruptions of the global financial markets could affect interest rates, ratings, credit risk, inflation and other factors relating to a Fund's investments.

Banking System Volatility. The U.S. banking system has recently experienced volatility resulting from, in large part, the closure of certain U.S. banks. While none of Sterling Bay Advisers, the General Partners, the Funds or their portfolio investments had any banking relationships with the banks subject to closure, similar events at other U.S. or international banks could increase Sterling Bay Advisers' and the Funds' costs, negatively impact the Funds' ability to execute on pending transactions, including with respect to the ability to draw down amounts under credit facilities, and divert Sterling Bay Advisers' time, attention and resources away from the pursuit of the Funds' investment strategy. These closures, and any additional closures that could occur within the banking system, have resulted and could continue to result in significant financial distress in the markets, which could exacerbate the normal risks associated with the Funds. Furthermore, these closures could lead to financial system and participant regulatory reform, and such increased regulatory oversight could impose additional administrative burdens on Sterling Bay Advisers, the General Partners and the Funds. The foregoing could materially adversely impact the Funds' operations and its ability to realize its investment objectives in a timely manner. It is currently unclear what the ultimate effect of the situation will be on the private equity industry and global markets as a whole.

Access to Deposits. Sterling Bay Advisers maintains the majority of its and the Funds' cash and cash equivalents in accounts with major U.S. financial institutions, and Sterling Bay Advisers' and the Funds' deposits at these institutions could, from time to time, exceed insured limits. Market conditions can impact the viability of these institutions. In the event of failure of any of the financial institutions where Sterling Bay Advisers maintains its and the Funds' cash and cash equivalents, there can be no assurance that Sterling Bay Advisers would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect Sterling Bay Advisers' or the Funds' business and financial positions.

Systems and Operational Risk. Sterling Bay Advisers relies on certain financial, accounting, data processing and other operational systems and services that are employed by Sterling Bay Advisers and by third party service providers, which could include third-party administrators, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems could be subject to certain defects, failures or interruptions. For example, Sterling Bay Advisers and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by

Sterling Bay Advisers and third-party service providers to safeguard information in these systems, Sterling Bay Advisers, clients and their third-party service providers are subject to risks associated with a breach in cybersecurity which could result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions could lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

Environmental, Social & Governance ("ESG") Matters. ESG matters have been the subject of increased focus by regulators in the US and EU, among other jurisdictions. While Sterling Bay Advisers strive to implement ESG practices, there can be no assurance that Sterling Bay Advisers will be able to identify all ESG issues or will be able to successfully implement its ESG policies. The use of ESG metrics in the investment process may be subjective and are not subject to uniform standards, and, as such, there is no guarantee that Sterling Bay Advisers will be able to accurately assess and measure the ESG risks and ESG compliance of a Fund's investments and/or potential investments. In evaluating an investment's ESG characteristics, Sterling Bay Advisers may also rely on information and data from third party providers, which may be incomplete, inaccurate or unavailable. As a result, there is a risk that Sterling Bay Advisers could incorrectly assess an investment or potential investment. There is also a risk that Sterling Bay Advisers may not apply the relevant ESG criteria correctly or that a portfolio could have indirect exposure to issuers that do not meet the relevant ESG criteria used by such portfolio. While Sterling Bay Advisers view ESG considerations as having the potential to contribute to an investment's long-term performance, there is no guarantee that such results will be achieved. ESG-based exclusionary criteria may result in a Fund foregoing opportunities to make certain investments when it might otherwise be advantageous to do so, and/or selling certain investments due to their ESG characteristics when it might be disadvantageous to do so. The use of ESG criteria may affect a Fund's investment performance (including by increasing expenses) and, as such, a Fund may perform differently compared to similar funds that do not use such criteria. Additionally, it should not be assumed that any ESG practices or standards will apply to every investment in which the Funds invest or that they have been applied to all of the Funds' prior investments. ESG is only one of many considerations that Sterling Bay Advisers take into account when making investment decisions, and other considerations can be expected in certain circumstances to outweigh ESG considerations. Any ESG information provided is intended solely to provide an indication of ESG initiatives and standards that the firm applies when seeking to evaluate and/or improve the ESG characteristics of an investment as part of the larger goal of maximizing financial returns on investments. Accordingly, certain investments may exhibit characteristics that are inconsistent with the practices or standards described herein.

Inflation. Certain countries have experienced and could in the future experience substantial, and in some periods extremely high, rates of inflation. Inflation and rapid fluctuations in inflation rates have harmed and could continue to harm the economies and securities markets (both public and private) of certain countries in which the Funds invests. There can be no assurance that high rates of inflation will not have a material adverse effect on the investments of the Funds.

Regulatory Status. Sterling Bay Advisers is registered as an investment adviser under the Advisers Act and, as such, is subject to the Advisers Act. Failure to comply with the requirements imposed on us could have a material adverse effect on Sterling Bay Advisers' ability to perform its duties to the Funds. Sterling Bay Advisers' ability to source and execute transactions for the Funds could also be adversely affected by negative publicity arising from any regulatory compliance failures or other inappropriate behavior attributed to or any other publicity related to Sterling Bay Advisers, any affiliate of Sterling Bay Advisers or any of their respective investment professionals.

SEC Regulation; Impact of Private Fund Adviser Rule Reforms. Changes in law or regulations could adversely affect the value of investments held (directly or indirectly) by a Fund, affect the ability of a Fund to pursue its investment strategy, restrict Sterling Bay's ability to operate as they have in the past, and increase the amount of fees or expenses borne by a Fund and Limited Partners indirectly. For example, in August 2023, the SEC adopted significant rules under the Advisers Act concerning certain private fund advisers. These rules include new (i) restrictions and prohibitions on certain conflicted activities (including the charging or allocation of certain fees and expenses to private fund clients); (ii) prohibitions and restrictions on preferential treatment relating to redemption rights and investment information, as well as requirements concerning increased transparency of preferential treatment; (iii) requirements to issue detailed quarterly statements to investors on performance, fees and expenses, and adviser and related person compensation; (iv) enhanced annual audit requirements; and (v) requirements relating to adviser-led secondary transactions. The dates by which advisers will be required to comply with these rules vary depending on the specific provision and by the amount of a private fund adviser's assets under management.

The time and attention as well as the financial costs associated with compliance with these rules, or other rules adopted in the future, could divert Sterling Bay's resources away from managing a Fund's investment program, which could adversely affect both a Fund and its investments. Similarly, the cost of new compliance obligations attributable to a Fund—such as the costs associated with quarterly reporting or audit requirements—will increase the financial burden on a Fund to the extent those costs are treated as fund expenses and could reduce Limited Partner

distributions. Further, the impact of these rules is uncertain and could become subject to increased uncertainty in the event the rules are challenged in court by industry groups or other market participants. Any legal or regulatory uncertainty with respect to these or other rules is likely to result in a diversion of Sterling Bay's time and resources as well as expose Sterling Bay to regulatory risk, all of which in turn could negatively impact a Fund and its investments.

Limited Partners Will Not Participate in Management of the Funds. Limited partners will not have the right to participate in the management of the Fund or in decisions made by the General Partners on the Funds' behalf. As a result, limited partners will have almost no control over their investments in the Funds or their prospects with respect.

Risks Related to Real Estate Investments

General Real Estate Risks. The Fund's investments will be subject to the risks incident to the ownership and operation of real estate and real estate-related businesses and assets, including changes in the general economic climate, local, national or international 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, attractiveness and location of the properties and changes in the relative popularity of property types and locations, the physical attributes of the building with respect to the current or future technological needs of the tenants, changes in the financial condition of tenants, buyers and sellers of properties, changes in operating costs and expenses, uninsured losses or delays from casualties or condemnation, changes in applicable laws, the quality of a building's tenants, government regulations (including those governing usage, improvement and zoning) and fiscal policies, the availability of financing, the strength of the local labor and financial markets, interest rate levels, environmental liabilities (including remediation expenses), contingent liabilities, successor liability for investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property), acts of God, acts of war (declared or undeclared), terrorist acts, work stoppages, shortages of labor, strikes, union relations and contracts, fluctuating prices and supply of labor and/or other labor-related factors and other factors beyond the control of the General Partner, the Fund and their respective affiliates.

Deterioration of Credit Markets Could Affect Ability to Finance and Consummate Investments. Deterioration of the global credit markets would make it more difficult for investment funds such as the Fund to obtain favorable financing for investments. The resulting widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, would dramatically reduce investor demand for debt, generally, but particularly for debt secured by real estate such as commercial mortgage loans or commercial mortgage backed securities, which in turn would likely lead some banks and other lenders to be unwilling to finance new private equity real estate investments or to only offer committed financing for these investments on unattractive terms. The Fund's ability to generate attractive investment returns will likely be adversely affected to the extent the Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they will 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. Such marketplace events could restrict the ability of the Fund to realize its investments at favorable times or for favorable prices.

Risks Associated with Unspecified Transactions. Typically, when the Fund begins investing, the Fund's investments have not been identified. Investors will be relying on the ability of the General Partner to identify and evaluate the investments to be made by the Fund. Because such investments will generally occur over a substantial period of time, the partnership faces the risks of changes in long-term interest rates and adverse changes in the real estate markets. Even if the investments of the Fund are successful, the returns will not be realized by the Partners for several years.

Development and Construction or Renovation Risks. The Fund's investments are expected to include acquisition of direct or indirect interests in undeveloped land or underdeveloped real property (which will often be non-income producing), real estate developments or redevelopments and/or businesses that engage in real estate development or redevelopment. To the extent that the Fund invests in such assets or activities, it will be subject to the risks normally associated with such assets and development activities, including the possibility of development cost overruns and delays due to various factors (including inclement weather, labor or material shortages, the unavailability of construction and permanent financing and timely receipt of zoning and other regulatory approvals), the availability of both construction and permanent financing on favorable terms and market or site deterioration after acquisition. Any unanticipated delays or expenses could have an adverse effect on the results of operations and financial condition of the Fund. Properties under development or properties acquired for development often receive little or no cash flow from the date of acquisition through the date of completion of development and could continue to experience operating deficits after the date of completion. In addition, market conditions have the potential to change during the course of development that make such development less attractive than at the time it was commenced.

Competition with Other Owners of Commercial Properties. The Fund will face significant competition from other developers, owners and operators of similar properties, which is likely to include Sterling Bay for other client accounts or existing or prospective joint venture partners of Sterling Bay, in the same markets and could be in competition with other properties owned or managed by Sterling Bay for its own account or for other client accounts. This competition could affect the Fund's ability to attract and retain tenants and has the potential to reduce the rents the Fund is able to charge. Additionally, when the Fund seeks to sell its properties, it will compete with other owners of commercial properties, which, in certain instances, will include Sterling Bay for its own account or for other client accounts, or any existing or prospective joint venture partner of Sterling Bay in connection with the sale of properties.

Investments in Real Estate Debt. In certain cases, the Fund could hold direct or indirect investments in certain real estate-related debt instruments. The Fund's use of such instruments is intended to be limited and is expected to be made in connection with obtaining title in a property, although there can be no guarantee that the Fund will be able to obtain such title. If the Fund is unable to obtain title to the applicable property, the Fund will have acquired such debt instruments for a higher price than it otherwise would have paid and could be forced to hold such debt instruments for longer than anticipated, in which case the following risks will apply. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real estate investments generally, real-estate related debt investments are subject to a variety of risks, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the exercise of contractual remedies for defaults of such investments. Debt investments have special inherent risks relative to collateral value. In the event of default, the source of repayment is limited to the value of the collateral and could be subordinate to other lien holders (and the collateral value of the property has the potential to be less than the outstanding amount of the investment). Real estate loans acquired by the Fund could be at the time of their acquisition, or could become after origination, participation or acquisition, non-performing for a wide variety of reasons. Non-performing real estate loans will often require a substantial amount of workout negotiations and/or restructuring, which could entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. To the extent that the Fund purchases partial interests in non-performing loans, the Fund will not have control over the workout process and the management of the real estate assets. It could be necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Fund, and the foreclosure process can be lengthy and expensive.

Operation and Repositioning Costs. Expenses of operation and repositioning (including real estate taxes, insurance, wages, labor costs, material costs, construction delays, and energy costs) have the potential to be higher than anticipated. Also, the precise condition of real estate assets will often not be known until repositioning is underway. Risks of greater than expected expenses could be associated with tenant removal, building codes, environmental contamination and the enforcement of environmental laws, change in laws related to the licensing and permitting of restaurants and bars, the zoning laws or permitted uses of real estate assets, and land use restrictions or amendments which could prohibit or lessen the contemplated repositioning of a venue. Real estate assets are subject to local zoning regulations and land use controls approved by the local municipalities and other governmental authorities which could change at any time. Restaurants, taverns, bars, brew pubs and other similar venues are subject to various federal, state and local laws which have the potential to change at any time. These expenses could substantially reduce the amount of funds available for distribution.

Tenants and Leases. Investments which include the opportunity to lease all or any part of such investments to third party tenants are subject to risks associated with defaults on lease payment obligations by such tenants would cause the Fund to lose the revenue associated with that lease and require the Fund to find an alternative source of revenue to pay its mortgage indebtedness and prevent a foreclosure action. If a tenant defaults or declares bankruptcy, the Fund will likely experience delays in enforcing its rights as a landlord and expects to incur substantial costs in protecting its investment. Termination of leases also would have a material adverse effect on the Fund's financial condition, results of operations and ability to pay distributions to Investors.

"Single-User" Facilities. The Fund expects to invest in real estate designed or built primarily for a single user that has been identified to occupy a particular location. This specific type of use is known as a "single-user facility." If the user identified for such location fails, or the tenant occupying such location fails to renew its lease or defaults on its lease obligations, the Fund will likely not be able to readily market a single-user facility to a new tenant without making substantial capital improvements or incurring other significant re-leasing costs. The Fund also will incur significant costs to enforce its rights as a landlord against the defaulting tenant, all of which could adversely affect the Fund's revenues and expenses and reduce the cash available for distribution.

Governmental Regulation, Including Licenses, Permits and Approval. The failure to obtain or maintain necessary building permits, or the failure to pass inspections by the local building department or other government

agencies, could materially adversely affect the Fund and delay the construction of a venue or prevent the Fund from developing a venue as originally planned.

A property has the potential to be subject to local zoning regulations and land use controls approved by the local municipalities and other governmental authorities. These regulations and controls could change at any time, often without notice, and such changes could affect a property and have a material and adverse impact on the Fund's financial condition, results of operation and ability to pay distributions to Investors. Of note, the Americans with Disabilities Act ("ADA") and other federal, state, and local laws, rules, and regulations, generally require public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws could require the Fund to renovate properties, the Fund to add other structural features or restrict renovations by requiring improved access to such buildings by disabled persons which increase construction costs. Legislation or regulations adopted in the future will likely impose further costs and obligations or restrictions on the Fund with respect to improved access by disabled persons. The Fund could incur unanticipated expenses which has the potential to be material to its financial condition or results of operations to comply with ADA and other federal, state, and local laws, or in connection with lawsuits brought by the government or private litigants.

Maintenance and Repair. The Fund will be relying upon third parties to properly maintain and repair the properties in order to preserve their value. Contractors hired from time to time to maintain and repair properties have the potential to not perform their work in an acceptable manner and the contracts pursuant to which such contractors were engaged will often not provide Investors with an adequate remedy for any work left unperformed or performed in an unsatisfactory manner.

Risks Related to Debt Investments

Risks of Acquiring Interests in Mortgage Loans. The Fund expects to acquire interests in mortgage loans that at the time of their acquisition or thereafter will often be non-performing for a wide variety of reasons with a view towards foreclosing on such mortgage loans and acquiring the property securing such mortgage loans. Such non-performing mortgage loans will likely require a substantial amount of workout negotiations and/or restructuring. If the Fund does foreclose on collateral securing one or more such mortgage loans purchased by the Fund, the foreclosure process will vary from jurisdiction to jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a mortgage loan, including lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure action. During the foreclosure proceedings, a borrower will have the ability to file for bankruptcy or its equivalent, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and will likely result in disrupting ongoing leasing and management of the property.

Lack of Operating Control of Underlying Investments. Prior to the time to (or in the event the Fund is unable to) foreclose on any mortgage loan and acquire the property securing such loan, the day-to-day operations of the entities and properties underlying such mortgage loans in which the Fund invests will be the responsibility of the owners and developers of such entities and properties. Although the General Partner will be responsible for monitoring the performance of such mortgage loan investments there can be no assurance that the owners and developers will be able to operate the underlying entities or properties in accordance with their business plans or the expectations of the Fund.

Lender Liability Considerations: Equitable Subordination. A number of judicial decisions in the United States have upheld the right of borrowers to sue lenders on the basis of various evolving legal theories (collectively, termed "lender liability"). Generally, lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower, its other creditors or its beneficial owners. Although the Fund does not intend to engage in conduct that it expects would form the basis for a successful cause of action based upon lender liability, the potential for such cause of action exists. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence to dominate or control a borrower to the detriment of other creditors of such borrower, a court could elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Although the Fund does not intend to engage in conduct that expects would form the basis for a successful cause of action based upon the equitable subordination doctrine, the potential for such a cause of action exists.

General Credit Risks. The value of any underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Fund cannot guarantee the adequacy of the protection of its interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Fund cannot assure that claims will not be asserted that have the potential to interfere with enforcement of the rights of the holder(s) of the relevant debt. In the event of a foreclosure, the liquidation proceeds upon sale of such asset will potentially not satisfy the entire outstanding balance of principal and interest on the loan or the Fund's investment in such loan, resulting in a loss to the Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss. The Fund will often not have the right to proceed directly against obligors on such loans.

Bank Debt Transactions. Special risks associated with investments in bank loans and participations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so-called lender-liability claims by the issuer of the obligations, see "Lender Liability Considerations; Equitable Subordination" above, (iii) environmental liabilities that could arise with respect to collateral securing the obligations, and (iv) limitations on the ability of the holder of the interest affecting the Fund to directly enforce its rights with respect to participations. Successful claims in respect of such matters will likely reduce the cash flow and/or market value of certain of the Fund's assets. Additionally, adverse credit events with respect to any underlying entity or property, such as missed or delayed payment of interest and/or principal, bankruptcy, receivership or distressed exchange, can significantly diminish the value of the Fund's investment in any such entity or property.

Usury Limitations. Interest charged on loans owned by the Fund will be subject to usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

Second Lien and Unsecured Loans. The Fund expects to also invest in second-lien and unsecured bank loans. In addition to the special risks generally associated with investments in bank loans described above, the Fund's investments in second-lien and unsecured bank loans will entail additional risks, including (i) the subordination of the Fund's claims to a senior lien in terms of the coverage and recovery from the collateral and (ii) with respect to second-lien loans, the prohibition of or limitation on the right to foreclose on a second-lien or exercise other rights as a second-lien holder, and with respect to unsecured loans, the absence of any collateral on which the Fund could foreclose to satisfy its claim in whole or in part. In certain cases, therefore, no recovery will be available from a defaulted second-lien loan.

Mezzanine Loans. The Fund could invest in mezzanine debt interests in entities and properties whose capital structures have significant leverage ranking ahead of the Fund's investments. While the General Partner anticipates that the Fund's investments will usually benefit from the same or similar financial and other covenants as those enjoyed by the leverage ranking ahead of the Fund's investments and will usually benefit from cross-default provisions, some or all of such terms will often not be part of particular investments. The General Partner anticipates that the Fund's usual security for its investments in such cases will be pledges of ownership interests, directly and/or indirectly, in a property-owning entity, and in many cases the Fund will not have a mortgage or other direct security interest in the underlying real estate assets. Moreover, it is likely that the Fund will be restricted in the exercise of its rights in respect of its investments by the terms of subordination agreements between it and the debt ranking ahead of the mezzanine capital. Accordingly, the Fund will not be able to take the steps necessary to protect such investments in a timely manner or at all and there can be no assurance that the rate of return objectives of the Fund or any particular investment will be achieved. To protect its original investment and to gain greater control over the underlying assets, the Fund will need to elect to purchase the interest of a senior creditor or take an equity interest in the underlying assets, which will likely require additional investment by the Fund.

Risk of Default or Insolvency by Investments. The leveraged capital structure of the entities and properties underlying the investments in which the Fund expects to invest will increase their exposure to adverse economic factors (such as rising interest rates, competitive pressures, downturns in the economy or deterioration in the condition of the entity or property) and to the risk of unforeseen events. This leverage will result in more serious adverse consequences to such underlying entities or properties (including to overall profitability or solvency) in the event these factors or events occur than the consequences for less leveraged entities or properties. For example, rising interest rates will significantly increase interest expense, or a significant market downturn will affect ability to generate positive cash flow, in either case causing an inability to service outstanding debt, which could include the debt investments held by the Fund. If any underlying entity or property cannot generate adequate cash flow to meet debt obligations, it could default on its loan agreements or be forced into bankruptcy. As a result, the Fund has the potential to suffer a partial or total loss of invested capital, particularly in the case of any mezzanine or second-lien debt investments of the Fund, in light of the subordinated position of such investments.

Risks Related to REITs

Failure to Maintain REIT Qualification. The General Partner is permitted to organize one or more entities treated as a real estate investment trust for U.S. federal income tax purposes (each, a “REIT”) through which the Fund will make investments. Qualification as a REIT involves the application of highly technical and complex provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), for which there are only limited judicial or administrative interpretations, and the determination of various factual matters and circumstances not entirely within the REIT’s control. If any REIT fails to maintain its qualification as a REIT in any taxable year, and certain relief provisions do not apply, the REIT would be subject to tax on its taxable income at regular corporate rates. In such an event, distributions by the REIT to the Fund or the investors would, to the extent of earnings and profits, be taxable to the investors as ordinary dividends.

REIT Ownership Restrictions. The governing documents of each REIT in which the Fund invests, if any, will contain ownership restrictions that generally restrict the beneficial ownership of interests in a REIT to 9.8% of such interests; provided, that the managing member of a REIT is permitted to, in its sole discretion, waive the ownership restrictions with respect to an investor. The purpose of the ownership restrictions is to assist in protecting and preserving a REIT’s status as a REIT under the Code. For an entity to qualify as a REIT under the Code, not more than 50% in value of the entity’s outstanding shares can be owned, directly or indirectly (including through a partnership), by five or fewer individuals (as specially defined in the Code to include certain entities) at any time during the last half of any taxable year subsequent to the first year for which the entity’s REIT qualification is effective. The ownership restrictions generally permit five persons to acquire (indirectly through the ownership of an interest in the Fund), up to a maximum of 9.8% each, or an aggregate of 49% of the outstanding interests of a REIT and, thus, assist such REIT in protecting and preserving its status as a REIT under the Code.

If any person’s ownership of interests in the Fund were to cause that person to indirectly own outstanding interests in a REIT in violation of the ownership restrictions or otherwise cause a REIT to fail to qualify as a REIT under the Code, the Fund’s, as applicable, shares in such REIT would constitute “Excess Shares” to the extent necessary to cause compliance with the ownership restrictions or permit such REIT to retain its status as a REIT under the Code. If the Fund’s shares in a REIT were to become Excess Shares as a result of the actions of any investor, the Fund’s right to distributions with respect to those shares would be significantly reduced. Therefore, the partnership agreement contains provisions that generally reduce any such partner’s distributions by the amount the Fund’s, as applicable, distributions were reduced as a result of the Excess Shares provisions. Each investor will be required to provide to the Fund such information as the General Partner reasonably requests to determine the effect of such investor’s ownership of interests in the Fund on the ability of a REIT to qualify as a REIT under the Code.

REIT Tax and Legislative Risks Associated with REITS. There can be no assurance that any potential REIT’s expected election to be taxed as a REIT for U.S. federal income tax purposes can be made, or, if made, can be continued. If a REIT fails to so qualify or fails to maintain its qualifications, it will be subject to tax, including applicable alternative minimum tax, on its taxable income at regular corporate rates. Although the Fund or a parallel investment vehicle is permitted to, but is not obligated to, hold certain REIT qualifying assets through one or more REITs, there can be no assurance that U.S. federal laws and regulations pertaining to REITs will not change before any REIT can be established and qualify, or, once established and qualified, that such laws and regulations would not have a retroactive effect on any or all such REITs. As a result of any such changes, it could be impracticable for the Fund and/or any such parallel investment vehicle to hold assets through a REIT.

Taxable REIT Subsidiaries. A REIT will often form one or more subsidiaries that elect to be treated as a “taxable REIT subsidiary” of such REIT for U.S. federal income tax purposes. Each such taxable REIT subsidiary will be taxable as a regular corporation, and could be limited in its ability to deduct any interest payments made to its parent REIT. In addition, the REIT will be subject to a 100% penalty tax on certain amounts received from its taxable REIT subsidiary if the economic arrangements among the REIT, its tenants and such taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties. To the extent the REIT or a taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, there will be less cash available for distribution to the investors.

Conflicts of Interest

Investments in the Funds are subject to certain conflicts of interest. Certain of these actual or potential conflicts of interest are highlighted below and in Item 11 “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” herein. Existing and prospective investors should also refer to the applicable Governing Documents for information regarding conflicts of interests.

Conflicts Generally. Sterling Bay Advisers and the other General Partners are owned and/or affiliated with several groups which own and/or control other entities dedicated to real estate investment and management of real estate assets. In certain instances, conflicts of interest will arise which could be resolved in a manner adverse to a Fund and its ability to achieve its investment objectives. In connection with managing investments and investment funds other than the Fund, the principals expect to spend a portion of their business time and attention pursuing investment opportunities for other investment funds and other than on behalf of the Fund. The principals and Sterling Bay Advisers' investment staff will continue to manage and monitor such investment funds and investments. Sterling Bay Advisers believes that the significant investment of the principals in the Funds, as well as the principals' interest in the carried interest, operate to align, to some extent, the interest of the principals with the interest of the partners, although the principals have or could have economic interests in such other investment funds and investments as well and receive management fees and carried interests relating to these interests. Such other investment funds and investments that the principals control or manage could compete with the Funds or companies acquired by the Funds. Following the expiration of the applicable investment period, the principals will continue to manage a Fund's investments, but will likely also focus their investment activities on other opportunities and areas unrelated to such Fund's investments. Certain investments will often be allocated between the Fund and any other investment funds sponsored by Sterling Bay in a manner as set forth in the partnership agreement.

The principals currently, and could in the future, manage several other investment funds besides the Funds and investments similar to those in which the Funds will be investing and will likely direct certain relevant investment opportunities to those investment funds and investments. Over time, certain investment opportunities suitable for the Funds are likely also to be suitable for other investment funds sponsored by Sterling Bay. In determining which investment funds should participate in such investment opportunities, subject to the applicable partnership agreements, Sterling Bay and the principals are subject to conflicts of interest among the investors in the Funds and investors in the other investment funds sponsored by Sterling Bay and the principals. To determine whether the Fund or other investment funds sponsored by Sterling Bay will participate in the relevant investment opportunity, the General Partner generally assesses whether an investment opportunity is appropriate for each relevant fund based on the terms of such Fund's limited partnership agreement. The Fund expects to invest together with other funds advised by an affiliated adviser of Sterling Bay Advisers, in the manner set forth in the relevant partnership agreement. The General Partner will determine the allocation of investment opportunities among funds in a manner that it believes is fair and equitable consistent with the General Partner's obligations and will take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which the Fund will invest exceeds an amount appropriate for the Fund, such excess will often also be offered to one or more potential investors.

Additionally, conflicts of interest can arise if a Fund makes an investment in a portfolio company in conjunction with an investment made by another investment fund sponsored by Sterling Bay. For instance, a Fund may not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such other investment fund. This will result in differences in price, investment terms, leverage and associated costs between a Fund and any other investing fund sponsored by Sterling Bay. There can be no assurance that a Fund and the other investing fund(s) will exit the investment at the same time or on the same terms, and a Fund's return on such an investment will not be the same as the returns achieved by any other investment fund participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to a Fund.

The General Partner's allocation of investment opportunities among the Fund and any of the other investment funds sponsored by the General Partner often will not be proportional. Therefore, such allocations will often be more advantageous to the Fund relative to one or all of the other investment funds, or vice versa. While the General Partner will allocate investment opportunities in a way that it believes in good faith is fair and equitable to the Fund, there can be no assurance that the Fund's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which the General Partner will be subject did not exist.

In addition, Sterling Bay, including other investment funds sponsored by it and/or the principals, have made, and may in the future make, investments in the Fund's investments or in certain tenants of the Fund's investments. While Sterling Bay intends that leases for such tenants be provided on competitive and market terms, such lease terms will not be determined through arms' length negotiation and could be more favorable to such tenants. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to the Fund.

The General Partner will be faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to a Fund. The General Partner, in its sole discretion, will allocate fees and expenses in accordance with the partnership agreement and in a manner that it believes in good faith is fair and equitable to a Fund under the circumstances and considering such factors as it deems relevant. The allocations of such expenses may not

be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on number of funds or co-investors receiving related benefits or proportionately in accordance with asset size.

Sterling Bay Advisers and the General Partners have instituted a program under which investments owned by the Funds can participate in purchasing, vendor or similar arrangements with Sterling Bay Advisers and other investments, including with respect to the purchase of insurance. Program participants expect to receive discounts negotiated with various vendors and service providers on a group-wide basis. Sterling Bay Advisers allocates fees and costs for such programs among the relevant investments. Sterling Bay will also participate in the program in exchange for an allocable portion of such fees and costs, and receive similar benefits and discounts as the investments participating therein. No such amounts will result in additional offsets to the Asset Management Fee. Sterling Bay Advisers believes any conflicts relating to such arrangements is mitigated by the anticipated cost savings to investments (which is expected to be to the benefit of the Funds) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market.

Sterling Bay Advisers' principals and employees invest in other private equity investment vehicles (including single investor co-investments) managed by other advisers. In some cases, Sterling Bay or the Funds will potentially purchase investments that are owned by such other investment vehicles, that could indirectly benefit any principals or employees. In some cases, private equity professionals or other services professionals from other investment firms could also be investors in the Funds.

Sterling Bay is permitted to, from time to time, employ personnel with pre-existing ownership interests in investments owned by the Funds or other funds or investment vehicles advised by Sterling Bay; conversely, former personnel or executives of Sterling Bay could serve in significant management roles at Fund investments or service providers recommended by the General Partners. Similarly, Sterling Bay and/or their personnel maintain relationships with (or will invest in) financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons (including principals) or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Sterling Bay, the Funds, the Funds' investments and/or other funds or other investment vehicles Sterling Bay advises. Sterling Bay will have a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or an investment owned by the Funds if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more funds Sterling Bay advises, will provide Sterling Bay information about markets and industries in which Sterling Bay operates (or is contemplating operations) or will provide other services that are beneficial to Sterling Bay. Sterling Bay will have a conflict of interest in making such recommendations, in that Sterling Bay has an incentive to maintain goodwill between themselves and the existing and prospective investments for the Funds and other funds and investment vehicles that Sterling Bay advises, while the products or services recommended will not necessarily be the best available to the investments held by the Funds.

Over the life of the Fund, the General Partner generally expects to exercise its discretion to recommend to any Fund or to an investment thereof that it contracts for services with various service providers, potentially including, among others: (i) Sterling Bay (or an affiliate thereof) and at rates determined or substantively influenced by Sterling Bay; (ii) an entity with which Sterling Bay or its affiliates or current or former members of their personnel has a relationship or from which such person derive a financial or other benefit (including the Third Party Firm); (iii) a limited partner (or a limited partner of another fund) or its affiliates; or (iv) an entity in which certain Sterling Bay personnel or affiliates invest. This subjects Sterling Bay to conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance investment performance, Sterling Bay will have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that Sterling Bay, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to Sterling Bay, its affiliates, the Funds and/or other investments sponsored by Sterling Bay), could favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person.

Whether or not Sterling Bay has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Preferred Limited Partners. To address certain liquidity constraints, Sterling Bay has and may in the future determine to admit certain limited partners to a Fund as Preferred Limited Partners. With respect to Fund II, certain Preferred Limited Partners are affiliates of a managing principal of Sterling Bay. The proposed rights, duties and

obligations of the interests of the Preferred Limited Partners differ materially from those of the non-Preferred Limited Partners of Fund II (the “**Common LPs**”), including but not limited to that the interests of the Preferred Limited Partners will have priority over distributions by the Fund that would otherwise be distributable to the Common LPs. As described above, the Common LPs and Preferred Limited Partners have different return profiles with respect to the Fund’s investments (due to, most notably, the distribution priority to the Preferred Limited Partners until the Preferred Limited Partners receive the Minimum Preferred Return), thereby resulting in Sterling Bay potentially taking into account the Preferred Limited Partners’ views over the Common LPs’ view or vice versa.

Institutional Partners’ Rights to Participate in Sterling Bay Investments in Certain Geographical Areas. Sterling Bay has entered into various agreements with certain institutional investors (including the Third Party Firm) (“**Institutional Investors**”) which require that Sterling Bay and any affiliate (which would include the Funds and their subsidiaries) to offer such Institutional Investors the opportunity or certain priority rights to purchase upon stabilization or to participate in any acquisition of, or other controlling investment in, any commercial property or properties within certain defined geographical areas. Although Sterling Bay is under no obligation to offer Fund investors any co-investment opportunities, the existence of Institutional Investors’ preemptive rights to investments in the defined geographical areas could further limit co-investment opportunities for investors in Funds.

Co-Investment Opportunities. When possible and appropriate, Sterling Bay is permitted to, at its sole discretion, but will be under no obligation to, provide co-investment opportunities to one or more third parties and/or investors in the Funds pursuant to which such third parties and/or investors in the Funds will be permitted to invest in Fund investments alongside the Fund. Co-investment opportunities, if offered by Sterling Bay, will be on such terms as Sterling Bay determines in its sole discretion, including management fees and carried interest to Sterling Bay, and could take the form of senior debt, subordinated debt or equity to be invested alongside the Fund. Generally, Sterling Bay will select which investors or other persons are permitted to co-invest based on various factors, including: the ability and expected interest of the investor to participate in the applicable investment and meet the desired due diligence, approval and funding timetable; prior experience with the investor, as well as the investor’s general reputation and experience as co-investor; Sterling Bay’s anticipated alignment of interest with the prospective investor; any expertise or experience of the investor that is relevant to or otherwise of strategic value to Sterling Bay, the Funds or the particular investment; any anticipated legal or regulatory constraints involving the investor; and any other reason for including such investor or person as determined by Sterling Bay in its sole discretion.

Fees and expenses incurred for transactions not consummated are borne by a Primary Fund either directly or, in the case of existing Fund investments, indirectly based on the Primary Fund’s interest in such underlying investment. Subject to the provisions of any applicable Governing Documents, Sterling Bay expects pursuit costs and due diligence costs incurred in conjunction with possible co-investments generally will be paid solely by the Primary Fund and will not be shared by co-investors or joint venture partners, except that a pro rata share of pursuit and due diligence costs will be allocated to a single purpose Co-Invest Fund when a transaction is consummated or if the Co-Invest Fund is established by the time the deal breaks.

ITEM 9 DISCIPLINARY INFORMATION

Sterling Bay Advisers and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Sterling Bay Advisers, the filing adviser, is affiliated with the General Partners, each of which is an investment adviser registered in accordance with SEC guidance under the Advisers Act pursuant to Sterling Bay Advisers’ registration. These affiliated investment advisers operate as a single advisory business together with Sterling Bay Advisers and serve as managers or general partners of private investment funds and other pooled vehicles and will often share common owners, officers, partners, employees, consultants or persons occupying similar positions. All of these Advisers are under common control and subject to Sterling Bay Advisers’ code of ethics and compliance programs adopted pursuant to the requirements of the Advisers Act.

Andy Gloor and Matt Menna, two of the principals of Sterling Bay, own and control Four Corners Capital Advisers, LLC, an exempt reporting adviser and sponsor of private equity funds investing in hospitality ventures. Some of Sterling Bay Advisers’ principals and employees invest in and serve on the boards of companies that are not targets of the Funds.

ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

Sterling Bay Advisers has adopted the Sterling Bay Code of Ethics and Securities Trading Policy (the “**Code**”), which sets forth standards of conduct that are expected of Sterling Bay’s principals and employees involved in providing investment advisory services to private investment funds, as set out in the Code (the “**Covered Personnel**”), and addresses conflicts that arise from the personal trading of such Covered Personnel. The Code requires the Covered Personnel to report their personal securities transactions, prohibits or requires pre-clearance for directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Covered Personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Chief Compliance Officer. A copy of the Code will be provided, free of charge, to any investor or prospective investor upon written request to Greg Sudkamp, Sterling Bay’s Chief Compliance Officer, at 333 N. Green St., Suite 1100, Chicago, IL 60607. Personal securities transactions by Covered Personnel are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

Sterling Bay Advisers has permitted certain third-party individuals access to Sterling Bay Advisers’ office space for their personal use. Such individuals are not employees or related parties of Sterling Bay Advisers. Sterling Bay Advisers has established policies and procedures with respect to the use of such shared space, including policies regarding confidential information and an agreement not to trade.

Sterling Bay Advisers and its affiliates, principals and employees will carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds and will give advice and recommend investments to vehicles which will likely differ from advice given to, or investments recommended or bought for, the Funds even though their investment objectives are the same or similar.

Participation or Interest in Client Transactions

Principals and employees of Sterling Bay and its affiliates will likely, directly or indirectly, own an interest in the Primary Funds or certain Co-Invest Funds. To the extent that Co-Invest Funds exist, such vehicles will invest in one or more of the same investments as the Funds.

Andy Gloor and Matt Menna, two of the principals of Sterling Bay, own and control Four Corners Capital Advisers, LLC, an exempt reporting adviser and sponsor of private equity funds investing in hospitality ventures, and its affiliates which own, develop and operate hospitality ventures (collectively, “**Four Corners**”). Sterling Bay expects the Funds and Four Corners’ affiliated entities to enter into transactions in which the parties have conflicting interests. Such transactions will often include, but are not limited to, a lease of real estate owned by a Fund to a Four Corners’ affiliated entity or a contract between a Fund and a Four Corners’ affiliated entity for the food and beverage service to a Fund-owned property in which the Four Corners’ affiliated entity will own the food and beverage business, including, for example, a management agreement under which a Four Corners’ affiliated entity collects a management fee for providing food and beverage service in a Fund-owned property.

The General Partners intend for transactions between the Funds and affiliates, on the one hand, and Four Corners and affiliates, on the other hand, to be on reasonable terms as determined by the General Partner in its sole good faith judgment. However, the General Partners do not intend to obtain third-party opinions of reasonableness as to the terms of the transactions between Sterling Bay and Four Corners and their respective affiliates. Further, although the General Partners could present a transaction to a Fund’s advisory board for its review prior to such Fund’s commitment to a transaction, the General Partners are under no obligation to do so, except as expressly set forth in a particular Fund’s Governing Documents. More favorable terms for such transaction could be available to the Funds if the counterparty is a third party without any common ownership and control, rather than a Four Corners entity. Investors in the Funds consent to such transactions with Four Corners prospectively by virtue of their investment.

In addition, certain Funds have and may in the future acquire or dispose of investments through transactions with affiliates of or other Funds advised by Sterling Bay (“**Manager-Related Parties**”). The General Partners intend for transactions between a Fund and Manager-Related Parties to be on reasonable terms as determined by the General Partner in its sole good faith judgment and in accordance with the Advisers Act, including Section 206 thereof. However, the General Partners will often not obtain third-party opinions of reasonableness as to the terms of the transactions between a Fund and Manager-Related Parties. In certain circumstances, Sterling Bay will determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Fund under then-current market conditions.

In particular, Sterling Bay Advisers anticipates that certain investments could be acquired by the Funds from Manager-Related Parties and that interests in certain Funds' investments could be acquired from Manager-Related Parties in connection with certain events as set forth in the Governing Documents. With respect to certain transactions with certain Funds, transactions in accordance with Sterling Bay Advisers' valuation policy or transactions with net value of less than \$500,000, Sterling Bay does not intend to seek Advisory Board approval and may or may not obtain additional third-party opinions of reasonableness respecting the terms of same.

Further, from time to time, Sterling Bay will relocate tenants from a property owned by the Fund to a property owned by a Manager-Related Party, or vice versa. In such circumstances, the Fund that owns/operates the property where the tenant relocates is expected to compensate the Fund that owns/operates the property at which the tenant was originally located. Although Sterling Bay believes that such payment will be appropriate under the circumstances, the terms of such agreement are not expected to be negotiated on an arms' length basis and will potentially not fully compensate the owner/operator of the original property for the loss of the tenant.

Allocation of Investments

Subject to any restrictions in the applicable Governing Documents, Sterling Bay or Four Corners are permitted to invest in real estate, and a Fund that is currently investing will potentially not be offered the opportunity to participate in such investments. Andy Gloor and Matt Menna, who control the investments of Four Corners, could choose to allocate investment opportunities that fit the investment strategy of a Fund to Four Corners instead. For example, and without limitation, Four Corners could purchase a hotel or other hospitality venue and the Fund will not participate in such acquisition. When making allocation decisions, Sterling Bay Advisers will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with Sterling Bay Advisers' obligations under the Governing Documents and any applicable allocation policies adopted by Sterling Bay Advisers.

Personal Trading

Sterling Bay Advisers and its affiliated persons have the potential to come into possession of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Sterling Bay Advisers and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Sterling Bay Advisers.

Accordingly, should Sterling Bay Advisers or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Sterling Bay Advisers would be prohibited from communicating such information to clients, and Sterling Bay Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following its policies and procedures designed to comply with applicable law. Similar restrictions will be applicable as a result of Sterling Bay personnel serving as directors of public companies and will likely restrict trading on behalf of clients. Due to these restrictions, the Funds will not be able to initiate a transaction that they otherwise might have initiated and will not be able to sell an investment that they otherwise might have sold.

Actual and potential conflicts of interest can arise out of the relationship between certain Sterling Bay personnel and their personal investments in private or public companies, on the one hand, and Sterling Bay, with the Funds' investments, on the other hand. Such Sterling Bay personnel may be inclined to recommend such companies' products or services to the Funds or their investments. Such recommendation or influence by Sterling Bay personnel on behalf of Sterling Bay, the Funds or their investments could personally benefit such Sterling Bay personnel. Sterling Bay's compliance policies and procedures are designed to ensure that any decisions with respect to the selection of service providers to the Funds or their investments are made independent of any interests that Sterling Bay or its personnel may have with respect to such services providers.

ITEM 12 BROKERAGE PRACTICES

Sterling Bay does not trade in publicly traded securities. Accordingly, Sterling Bay does not have, nor does it anticipate having, obligations regarding the trading practices of best execution, trade aggregation, or soft dollars (i.e., an arrangement where securities transactions are executed through a broker-dealer that charges more than the lowest available commission rate in exchange for the provision of brokerage and research services).

Section 206 of the Advisers Act requires Sterling Bay Advisers to act in the best interests of its Funds and investors. Generally, the Funds' investments consist of private real estate transactions (e.g., purchases, sales, leases, joint ventures or financings). In such privately negotiated transactions, Sterling Bay expects to engage the services of

a real estate broker for the purchase, sale, or lease of a property or a mortgage broker for the financing or refinancing of debt on a property. When considering retaining the services of such brokers, Sterling Bay will consider such factors as the broker's industry experience, its reputation, and its capability based on previous and pending transactions effected for Sterling Bay, among others.

ITEM 13 REVIEW OF ACCOUNTS

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Sterling Bay Advisers closely monitors properties in which each Fund invests, and the Sterling Bay Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

The Funds generally provide to their investors (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each limited partner's tax return and (iii) annual reports providing a narrative summary of the status of each investment. In addition to the information provided to all investors, Sterling Bay Advisers has provided and may in the future provide certain investors (e.g., in connection with co-investment opportunity) with additional information or more frequent reports that other investors will not receive.

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

As described in Item 5 "Fees and Compensation", Sterling Bay Advisers and its affiliates will provide certain services to the Funds or their investments and will receive Service Compensation from these companies in connection with such services. Investors do not share in any of Service Compensation paid to Sterling Bay.

From time to time, Sterling Bay Advisers expects to enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming an investor in one of the Funds. In certain cases, any fees and expenses payable to any such placement agents will borne by Sterling Bay Advisers directly or if applicable, indirectly through an offset against the Management Fee. In other cases, future placement arrangements could be a flat fee or based on a percentage of commitments or investment of an investor to a particular Fund in accordance with such Fund's Governing Documents.

ITEM 15 CUSTODY

Although Sterling Bay Advisers and the General Partners are deemed to have custody of the underlying assets of the Funds they manage, they rely on the "pooled investment vehicles" exemption from the reporting and surprise audit obligations imposed by the SEC's custody rule.

Sterling Bay Advisers maintains custody of the Funds' assets held in the applicable Fund's name with the following qualified custodians, to the extent required by current SEC standards and guidance:

- Bank of America, N.A.
- The Northern Trust Company
- Wintrust Bank
- Wells Fargo, N.A.

ITEM 16 INVESTMENT DISCRETION

Sterling Bay has discretionary authority to manage investments on behalf of the Funds in accordance with each Fund's Governing Documents. As a general policy, Sterling Bay does not allow clients to place limitations on this authority. Pursuant to the terms of each Fund's Governing Documents, however, Sterling Bay has entered and may in the future enter into "side letter" arrangements with certain limited partners that have the effect of establishing rights under or altering or supplementing the applicable Fund's limited liability company operating agreement or limited partnership agreement or an investor's subscription agreement. Such rights or alterations could be regarding economic terms, fee structures, excuse rights, information rights, co-investment rights, or transfer rights. Investment advice is provided directly to each Fund and not individually to the limited partners of any Fund.

Sterling Bay assumes this discretionary authority pursuant to the terms of the applicable Funds' Governing Documents and powers of attorney, if any, executed by the investors in the Funds.

ITEM 17 VOTING CLIENT SECURITIES

Sterling Bay Advisers has adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Funds' investments. Sterling Bay Advisers does not expect to enter into any proxy voting arrangements nor does it expect to have an opportunity to vote proxies on behalf of its Funds. Sterling Bay believes its interests are aligned with those of its Funds' investors through the Sterling Bay's principals' beneficial ownership interests in the Funds; therefore Sterling Bay Advisers does not expect to seek the approval or direction of investors in the Funds in the unlikely event a vote of securities owned by any Fund is required. In the event there is a conflict of interest between Sterling Bay Advisers and a Fund in voting proxies, the Proxy Policy provides that Sterling Bay Advisers address the conflict using certain procedures. A copy of the Proxy Policy will be provided, free of charge, to any investor or prospective investor upon written request to Greg Sudkamp the Sterling Bay Chief Compliance Officer, at 333 N. Green St., Suite 1100, Chicago, IL 60607.

ITEM 18 FINANCIAL INFORMATION

Sterling Bay Advisers does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.