

# Homestead Capital USA, LLC

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This Brochure provides information about the qualifications and business practices of Homestead Capital USA, LLC (“Homestead”). If you have any questions about the contents of this Brochure, please contact us at (415) 369-9952 or [info@homesteadcapital.com](mailto:info@homesteadcapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Homestead is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Homestead also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Homestead Capital USA, LLC (“Homestead”) is required to identify and discuss any material changes made to its brochure since the last annual update to this brochure dated March 26, 2018.

This brochure has been updated to reflect the following material changes:

- Various Items were updated to reflect the initial close of Fund III (defined below) during 2018.
- Additional risk factors have been added to Item 8.

Please note that this summary of material changes discusses only those material changes that have occurred since the last annual update of the brochure. Homestead may have revised the language in certain sections but has not materially altered any of its other responses in this brochure.

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## **Item 4 – Advisory Business**

### **A. General Description of Advisory Firm.**

Homestead Capital USA, LLC is a Delaware limited liability company. The principal place of business is in San Francisco, CA. Homestead was formed in July 2012. Gabe Santos and Daniel Little are the principal owners of Homestead, with each owning a 50% interest in Homestead.

### **B. Description of Advisory Services**

Homestead provides discretionary investment advisory services to private investment funds, all of which are Delaware limited partnerships: Homestead Capital USA Farmland Fund I, L.P., Homestead Capital USA Farmland Fund I AIV, L.P. (collectively, “Fund I”), Homestead Capital USA Farmland Fund II, L.P., Homestead Capital USA Farmland Fund II AIV, L.P. (collectively, “Fund II”) and Homestead Capital USA Farmland Fund III, L.P. (“Fund III” and together with Fund I and Fund II, the “Funds,” or the “clients”). The Funds are exempt from registration under the Investment Company Act of 1940, as amended (the “Company Act”). Affiliates of Homestead, Homestead Capital USA Farmland Fund I GP, L.L.C. (the “Fund I General Partner”), Homestead Capital USA Farmland Fund II GP, L.P. (the “Fund II General Partner”) and Homestead Capital USA Farmland Fund III GP, L.P. (the “Fund III General Partner”, together with the Fund I General Partner and Fund II General Partner, the “General Partners”) serve as the general partners of Fund I, Fund II and Fund III respectively. Homestead may provide discretionary investment advisory services to other private investment funds in the future.

Homestead generally invests the Funds’ assets to opportunistically acquire farmland located throughout the United States. The Funds seek to generate attractive risk-adjusted returns through two key components: i) cash yield driven by rental income and ii) capital appreciation of the underlying land value over the investment holding period. Additional information about the investment objectives and strategy of the Funds are set forth in the Confidential Private Placement Memorandums (including any supplements thereto) for Fund I, Fund II and Fund III (the “PPMs”). All capitalized terms used but not defined herein shall have the meaning ascribed to such term in the PPMs.

In addition, the Funds and the General Partners (without any further act, approval or vote of any partner in the Funds) have entered into side letters or other similar agreements with certain limited partners in the Funds (and may do so in the future) that have the effect of establishing rights under, or altering or supplementing the terms of, the Fund partnership agreements, including but not limited to membership on the Fund’s Advisory Board, co-investment rights, limited partners’ ability to disseminate Confidential Information in accordance with legal requirements and Eleventh Amendment immunities protections.

Homestead may in the future establish separately managed accounts which tailor their investment objectives, guidelines, restrictions, terms and/or fees to the specific needs of the

client. Such investment objectives, fee arrangements and terms will be individually negotiated.

### **C. Individualized Client Advisory Services**

Homestead does not tailor its advisory services to the individual needs of clients.

### **D. Wrap Fee Programs.**

Homestead does not participate in any wrap fee programs.

### **E. Client Assets Under Management.**

As of December 31, 2018, Homestead had approximately \$813,300,450 of discretionary client regulatory assets under management.

## **Item 5 – Fees and Compensation**

For services provided to each Fund, each Fund pays Homestead a management fee (a percentage of commitments and/or capital investments under management) and a performance-based carried interest (a percentage of the net profits from divestment of portfolio holdings after capital is returned and a preferred return is distributed, as described in Item 6, below). Homestead may also receive directors' fees, transaction fees, investment banking fees, advisory fees, monitoring fees, or similar fees, as described below.

The Funds' fees and expenses are detailed in the PPMs and should be consulted for a complete description of fees, expenses and definitions of applicable terms.

### *Management Fees*

The Funds pay Homestead a management fee up to the amount specified in the Fund's offering materials. Through the end of a Fund's "Investment Period," this fee is in an amount equal to approximately 1.5% - 1.75% of the aggregate capital commitment of the Fund's investors. After the end of the Investment Period (or upon such other events as may be specified in each Fund's offering materials), the fee is equal to 1.5% to 1.75% of capital that is invested, budgeted or reserved.

The management fee is accrued and payable quarterly in advance. Each General Partner generally causes payment of the management fee to be deducted from the Funds' accounts (as applicable) quarterly in advance. In the event of an early termination of a Fund, we will return to the Fund the proportionate amount of the management fee attributable to the period after the termination date. Management fees are not negotiable. However, Homestead reserves the right to waive all or part of these fees/allocation in its sole discretion.

### *Other Fees*

In addition, the Funds' management fees will be reduced by 100% of any: (i) directors' fees, financial consulting fees or advisory fees paid to Homestead or the General Partner with respect to any Fund investment; (ii) transaction fees paid to Homestead or the General Partner with respect to any Fund investment; and (iii) break-up fees with respect to Fund transactions not completed that are paid to Homestead or the General Partner; but not including, in any event, any amount received by Homestead, the General Partner or other persons (including farm managers) from a portfolio investment as reimbursement for expenses directly related to such portfolio investment, as payment for services provided to any portfolio investment in the ordinary course of such portfolio investment's business or as compensation for services provided by Homestead, the General Partners or other persons as an employee of or in a similar capacity for such portfolio investment.

Homestead may elect to waive a portion of the Management Fee in exchange for a reduction in the respective General Partner's cash capital contribution obligation.

### *Additional Expenses*

The investment strategies we employ for the Funds generally do not involve the purchase or sale of publicly offered securities, and as such, do not typically entail expenses related to securities related brokerage commissions, although other expenses may arise. Please refer to Item 12 for additional information regarding the factors we consider in selecting real estate brokers and other service providers for transactions, and in determining the reasonableness of their compensation.

Each Fund will reimburse Homestead for the Fund's and its affiliated entities' organizational and startup expenses, including legal, travel, accounting, filing, printing, capital raising and other organizational expenses. Homestead will bear the cost, if any (through an offset against the Management Fee or otherwise), of all organizational expenses in excess of \$1.25 million in the case of Fund I, \$1.5 million in the case of Fund II and Fund III and of any placement fees payable to any placement agent in connection with soliciting investors' funds.

In addition to the Management Fee, each Fund will pay all other costs and expenses of the Fund that are not reimbursed by portfolio investments (which reimbursements may be for travel and any other out-of-pocket expenses incurred in connection with the making, monitoring and/or disposing of such portfolio investments, including follow-on investments), including legal, auditing, consulting, financings and refinancings, accounting, administration and custodian fees and expenses; expenses associated with the Fund's financial statements, tax returns, Schedule K-1s and any other Fund-related reporting or filing obligations; expenses incurred in connection with transactions not consummated; expenses of the Fund's Advisory Board and annual meetings of the Limited Partners; insurance (including directors and officers insurance); other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); costs and expenses (including salaries and overhead) of any

regional farm manager and its affiliates; and any taxes, fees or other governmental charges levied against the Fund.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The Funds pay their respective General Partner certain performance-based distributions in the form of carried interest – with respect to Fund I, 10% of the net proceeds from the divestment of the Funds' portfolio holdings after return of capital, allocable fees and expenses and a preferred return and with respect to Fund II and Fund III, 15% of such net proceeds. The General Partner's receipt of performance-based distributions is subject to certain limitations set forth in the constituent documents of each Fund. All performance-based income is calculated and paid in accordance with Section 205 and Rule 205-3 under the Investment Advisers Act of 1940.

Performance based compensation arrangements may create an incentive for Homestead to recommend investments which may be riskier or more speculative than those which would be recommended under a different compensation arrangement.

Although the Funds pay us different rates of performance-based fees, we generally believe that we do not face conflicts related to the side-by-side management of accounts since Fund I, Fund II and Fund III each holds discrete assets and do not co-invest in investments with each other, so it is in Homestead's interest for each account to maximize the return from those assets.

## **Item 7 – Types of Clients**

Homestead provides portfolio management services to the Funds, which are pooled investment vehicles. In general, limited partnership interests in the Funds are offered on a private placement basis and in reliance on Section 3(c)(7) of the Company Act, to persons who generally are "accredited investors" as defined under the Securities Act of 1933, as amended, and "qualified purchasers" as defined under the Company Act, and who are subject to certain other conditions, which are fully set forth in the offering documents for the applicable Fund. Underlying investors in the Funds may include, without limitation, state and municipal entities, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, business entities, endowments, foreign sovereign wealth funds and other types of investors.

The Funds generally require capital commitments of at least \$5 million, although a Fund's constituent documents may allow for exceptions to these minimums in our discretion.

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

The descriptions set forth in this brochure of specific investment strategies that Homestead utilizes to manage the Funds are not exhaustive. Investing in securities involves risk of loss that clients should be prepared to bear. Moreover, investment in the Funds involves

significant risks and there can be no assurance that any Fund's investment objectives will be achieved. There may occur potential or actual conflicts of interest involving Homestead, its affiliates and the Fund.

### *Investment Strategies*

Homestead generally invests the Funds' assets with the objective of acquiring and managing a portfolio of diversified U.S. farmland and will seek to derive investment returns through two sources:

1. Annual dividends from rental income and profits generated by farming activities.
2. An increase in the value of the underlying land over the period of the investment.

Fund I made approximately 30 investments in high-quality row and permanent cropland in the U.S. Midwest, Mountain West, Pacific and Delta regions, while Fund II and Fund III are expected to make 30-60 investments in similar type assets. Homestead will implement a bottom-up investment approach to sourcing and diligence and will utilize a team of farm managers located in each region. This bottom-up approach will be paired with a top-down investment approach to portfolio construction to ensure proper diversification and an appropriate risk and reward profile at the portfolio level.

Homestead has developed a proprietary database which tracks yields, soil quality and consistency and water rights for counties across the United States as well as climate patterns and commodity pricing. This information is critical to the due diligence process and allows Homestead to manage concentration risk at the portfolio level of the Funds, specifically as it relates to crops, operators, regions and lease types prior to acquisition. Additionally, through its proprietary asset management model, Homestead is able to simulate the impact of additional farms to the portfolio level IRR and stress test the portfolio for various downside scenarios.

Homestead also seeks to construct the Funds' portfolios across lease types in order to generate an attractive cash yield. Lease types that may be utilized by the Funds include Cash Rent, Crop Share, Custom and Variable Lease arrangements.

Finally, Homestead will pursue several enhancement strategies to maximize value, including capital improvements, improved farm management, creation of economies of scale, efficient crop selection and rotation and participation in government programs.

Additional information regarding the risks associated with the Fund's investment strategy may be found in the PPMs.

### *Risks of Investing*

**Agricultural Real Estate Risks.** Investments in farmland are subject to various risks, including adverse changes in national or international economic conditions, adverse local



market conditions, adverse natural conditions such as storms, floods, drought, windstorms, hail, temperature extremes, frosts, soil erosion, infestations and blights, financial situations of tenants, marketability of any particular kind of crop that may be influenced, among other things, by changing consumer tastes and preferences, import and export restrictions or tariffs, governmental subsidy or production programs, buyers and sellers of properties, availability of excess supply of property relative to demand, changes in availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses, environmental laws and regulations, governmental regulation of and risks associated with the use of fertilizers, herbicides and other chemicals used in commercial agriculture, zoning laws and other governmental rules and fiscal policies, energy prices, changes in the relative popularity of properties, risk due to dependence on cash flow, as well as acts of God, uninsurable losses and other factors which are beyond the control of the Funds. In addition, certain states, including Iowa, Kansas, Minnesota, Missouri, North Dakota, Oklahoma, South Dakota and Wisconsin, have enacted legislation that restricts the ownership of agricultural land and/or restricts the types of entities (including limited partnerships owned by non-family members) that are permitted to engage in farming operations. As a result, the Funds' ability to acquire, operate and sell farmland in certain jurisdictions may be restricted by these protectionist laws.

Further, investment in a given geographic region is subject to the risk of natural disaster or market conditions unique to that region. If a significant allocation of investment resources is allocated in a region that suffers a natural disaster or a unique regional downturn in market conditions, the Funds' operating results and financial condition would be materially adversely affected.

**Real Property Investments.** Real property investments, including investment in farmland properties, are subject to varying degrees of risk. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions (such as an oversupply of, or a reduction in demand for, rental farmland properties), the quality and philosophy of management by tenant farmers, competition based on rental rates, attractiveness and location of the properties, condition of the properties, financial condition of buyers and sellers of properties, quality of maintenance, insurance services, and changes in operating costs. If investments do not generate sufficient revenues to meet their operating expenses, including any debt service and capital expenditures, the Funds' cash flow and ability to pay distributions to the investors will be adversely affected. In addition, in certain circumstances, the Funds may be required to drawdown additional capital from the investors to pay the Funds' expenses or to make follow-on investments in properties then held by the Funds. Certain significant expenditures associated with each investment (such as mortgage payments, real estate taxes and insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in income from such investment. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing, participation by other investors in the financial markets and potential liability under changing laws.

**Availability and Demand for Agricultural Commodities.** The Funds may receive rent based on the value of a set amount of bushels of crops at a specified date (or possibly may receive crops in lieu of cash payments of rents), and may also contract to acquire a similar quantity of crops from certain tenant farmers. The Funds may pursue hedging activities with respect to any rents measured by or payable in crops and/or any crops to be acquired by the Funds. In addition, the Funds may market any physical crops received as rent or purchased by it from the tenant farmers. Weather conditions (including drought, flooding and natural disasters), pests and disease have historically caused volatility in the agricultural commodities markets by causing crop failures or significantly reduced harvests, which can affect the supply and pricing of agricultural commodities. Government farm programs and policies, changes in global demand created by population growth, changes in standards of living and global production of competitive crops may also affect the availability and prices of agricultural commodities. While the Funds intend to mitigate these risks through crop insurance, securing liens against tenant farmers, and hedging activities, there can be no assurance that the Funds or its subsidiaries will not suffer losses as a result of the lack of availability or fluctuation of the prices of such commodities.

Increases in water prices or insufficient availability of water may also adversely affect crop production and therefore the value, of agricultural properties, resulting in reduced profitability for the Funds. The Funds will seek to mitigate such risks by generally investing in properties with access to a steady water supply or properties using dryland technologies, but the loss or reduction of access to water sources or increased costs of maintaining such sources could have a material adverse effect on the Funds.

In the future, advances in seed technology, genetic engineering, irrigation improvements and other agricultural technology enhancements may lead to higher crop production on existing farmland. This could reduce the Funds' anticipated returns, which are, in part, based on certain assumptions regarding an increased global demand for agricultural products and declining availability of farmland.

**Potential Environmental Liability.** Under various U.S. federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to sell the property. Further, a transfer of property does not relieve from liability a person who owned the

property at a time when hazardous or toxic substances were disposed of on, or released from, such property. In addition, noncompliance with environmental regulations may allow a governmental authority to order the owner/operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. Where appropriate to reduce the possibility of liability under environmental laws, the Funds will seek to obtain indemnities from sellers, purchase environmental insurance or hold title in limited liability entities. There can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect the Funds' investments.

**Limitations on Ability to Harvest.** Revenues, earnings and cash flow from the operations of the investments are dependent to a significant extent on their continued ability to harvest crops at adequate levels. Weather conditions, crop growth cycles, access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of the farmland, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural and man-made disasters. There can be no assurance that such investments will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows. In addition, the operations of the portfolio investments are expected to be subject to seasonal variations in the regions in which the portfolio investments are located. Harvesting activity can be compromised by inaccessibility to some sites during wet seasons resulting in decreased harvest levels. Results of one quarter will not be indicative of results that may be achieved in other quarters or for the full year.

**Transportation Cost Risk.** Farmlands, particularly those which are inland, rely almost exclusively on land transportation. Consequently, the investments may be more susceptible to fuel cost increases than agricultural companies which use water transportation, which is less exposed to fuel prices. Historically, the markets for fuel such as oil, gas, coal and power have been volatile. This volatility is likely to continue in the future. Market prices of these energy commodities may fluctuate materially depending on a variety of factors beyond the control of Homestead or the Funds, including, without limitation, weather conditions and foreign and domestic supply. Such investments may be limited in the amount of fuel cost increases they can pass on to their customers.

**Land Title Claims.** While the Funds intend to have its farmland registered under land title systems, where such systems exist, such systems may not be available or, where land title regimes are in place, there may be a risk of title claims in the future. Furthermore, leasehold opportunities in connection with crop rights are subject to risks not associated with farmland secured with clear title. These risks include possible cancellation of operating licenses related to non-payment of land taxes, title disputes or other property-related judicial disputes where the landowner is responsible for managing conflicts. If a claim to any portion of a Fund's farmland is successful, the Fund could be required to forfeit such lands or pay amounts to the claimant, which could have a material adverse effect on the Fund's financial performance.

**Lessee Risks.** The Funds expect to receive income as lease payments under leases with tenant farmers. Therefore, the Funds will likely be dependent upon the payment of lease payments and performance of other lease obligations by the lessees under the leases. The Funds have limited control over the success or failure of its lessees' businesses and, at any time, any of the Funds' lessees may experience a downturn in its business that may weaken its financial condition. As a result, the Funds' lessee may delay lease commencement or renewal, fail to make lease payments when due or declare bankruptcy, which could result in material losses to the Funds.

**Valuations.** Unlike exchange listed and other readily tradable securities, real estate assets generally cannot be marked to an established market. Instead, an appraisal or a valuation is only an estimate of value and not a precise measure of realizable value. Real estate valuations are subject to numerous assumptions and limitations. Ultimate realization of the market value of a real estate asset depends to a great extent on economic and other conditions beyond the control of the Funds and Homestead. Further, appraised or otherwise determined values do not necessarily represent the price at which a real estate investment would sell since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. Valuations will generally be based on the discounted cash flows of the Funds' assets or appraisals. Valuations of real properties should be considered only as estimates of value and not measures of realizable value with respect to such properties. As a result, if the Funds were to liquidate a particular real estate investment, the realized value may be more or less than the appraised value or valuation of such asset. Broker charges and other selling expenses may also contribute to the realized value being less than the appraised value.

**Concentration of Investments.** Although Homestead intends to focus the Funds' investments on various farmland classes, there can be no assurance as to the degree of diversification that will actually be achieved. In addition, the Funds intend to focus on investments primarily or exclusively located in the United States. The Funds' portfolios may consist of a small number of investments, each with a significant portion of the Funds' aggregate Capital Commitments invested. An adverse change in one or more of the investments or their farmland classes could have a material adverse effect on the Funds overall due to the concentrated nature of the Funds' portfolio. Therefore, a material loss in any one investment will yield a return to the investors that may be lower than if the Funds had invested in a more diversified portfolio. In addition, the investments will consist almost entirely of farmland and farmland related assets. Accordingly, general fluctuations in the demand for agricultural products could have a material adverse effect on overall harvest levels and the Funds' financial results. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio investments and thus be less diversified.

**Lack of Sufficient Investment Opportunities.** The business of identifying and structuring agricultural real estate transactions is highly competitive and involves a high degree of uncertainty. It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. However, investors will be required to pay management fees during the investment period based on the entire amount of the investors' commitments.

**Illiquidity; Lack of Current Distributions.** An investment in any of the Funds should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may 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 may 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 may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the management fees payable to Homestead) may exceed its income, thereby requiring that the difference be paid from the respective Fund's capital, including, without limitation, unfunded commitments.

**Bridge Financing.** From time to time, the Funds may use proceeds from a subscription line or portfolio company debt to advance funds to their portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in a Fund's control, such long term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investments would remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments would not adequately reflect the risk associated with the position taken by a Fund.

**Subscription Lines.** A Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the

creditworthiness of the relevant Fund's limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

**Leverage.** The Funds may borrow money and such borrowing may take the form of loans for borrowed money or derivative securities and instruments that are inherently leveraged, including options, futures, forward contracts, swaps and repurchase agreements. Derivative instruments typically require an initial outlay of a small amount of capital; the deposit of additional capital or "variation margin" is generally required if the positions decline in value. The use of leverage will result in interest charges or costs, which may be explicit (in the case of loans) or implicit (in the case of many derivative instruments). The level of interest rates generally, and the rates at which the Funds can leverage in particular, can affect the operating results of the Funds. The Funds may use leverage in connection with its real estate investments. The use of significant leverage by the Funds increases the exposure of real estate investments to adverse economic factors such as rising interest rates, severe economic downturns or deteriorations in the condition of a real estate investment or its market. Although borrowings by the Funds have the potential to enhance overall returns that exceed the Funds' cost of funds, they will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Funds' cost of funds. Principal and interest payments on indebtedness (including mortgages having "balloon" payments) may be required regardless of the sufficiency of cash flow from the assets of the Funds. In situations in which the Funds have used leverage, such real estate investment may be impaired by a smaller decline in the value of the assets than is the case where assets are owned with a proportionately smaller amount of debt. Depending on the level of leverage and decline in value, if mortgage payments are not made when due, one or more of the properties may be lost (and the Funds' real estate investment therein rendered valueless) as a result of foreclosure by the mortgagee(s). A foreclosure may also have substantial adverse tax consequences for the Funds. Lenders or other holders of senior positions will be entitled to a preferred cash flow prior to the Funds receiving a return on leveraged real estate investments, and, in the event a real estate investment is unable to generate sufficient cash flow to meet the principal and interest payments on its indebtedness, the value of the Funds' equity investment in such real estate investment could be significantly reduced or even eliminated. Homestead may obtain one or more revolving credit facilities which may be

secured by the commitments of the investors. Any inability of the Funds to repay such borrowings could enable a lender to take action against any investor to the extent of its then remaining commitment.

**Potential Restrictive Covenants.** The Funds may enter into a credit facility with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Funds to: acquire or dispose of assets or businesses; incur additional indebtedness; make expenditures, distributions or capital calls; create liens on assets; enter into leases, investments or acquisitions; consent to transfers of interests in the Funds; make amendments to the governing documents of the Funds; or engage in certain transactions with affiliates, and otherwise restrict activities of the Funds without the consent of the lenders. In addition, such a credit facility would likely require the Funds 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.

**Interest Rate Risks.** Changes in interest rates may adversely affect the investments of the Funds. Changes in the general level of interest rates can affect the Funds' income by affecting the spread between the income on its assets and the expense of its interest-bearing liabilities, as well as, among other things, the value of its interest earning assets, the capitalization rate at which its real estate assets are valued in the market and its ability to realize gains from the sale of assets. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Funds. The Funds may finance their activities with both fixed and floating rate debt. With respect to its floating rate debt, the Funds' performance may be affected adversely if the Funds fail to limit the effects of changes in interest rates on its operations by employing an effective hedging strategy, including engaging in interest rate swaps, caps, floors or other interest rate contracts, or buying and selling interest rate futures or options on such futures. Should the Funds so elect (and it may be under no obligation to do so), the use of these instruments to hedge a portfolio carries certain risks, including the risk that losses on a hedge position will reduce the Funds' earnings and funds available for distribution to its investors and that such losses may exceed the amount invested in such instruments.

**Significant Adverse Consequences for Default.** The Funds' Partnership Agreements provides for significant adverse consequences in the event an investor defaults on its commitment or any other payment obligation. In addition to losing its right to potential distributions from the Fund in which the investor had invested, a defaulting investor may be forced to transfer its interest in the Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

**Impact of Government Regulations.** 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 may 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 Funds.

**Harmful Mold and Other Air Quality Issues.** When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of the Fund's properties could require the Fund to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose the Funds to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

**Casualty and Condemnation.** Investments in real estate are subject to the risks of partial or total condemnation in accordance with applicable law or regulation and casualty, whether arising from destruction by fire, earthquake, flood, hurricane or otherwise. In either case, the Funds' investments (depending on such investments' status as lender, borrower or equity owner) may be subject to one or more of the following liabilities: (i) lenders may require prepayments of outstanding loans with any proceeds arising from a casualty or condemnation recovery event (i.e., insurance coverage), (ii) insurance coverage may not be sufficient to cover renewal of an investment, (iii) renovations or developments with respect to an investment may be delayed and (iv) a seller may bear the risk of loss for such casualty or condemnation in connection with the disposition of an investment through the date of disposition.

**Cybersecurity.** Homestead, the Funds' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Funds and their investors, despite the efforts of Homestead and the Funds' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Funds and their investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent



access to these systems of Homestead, the Funds' service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Homestead's systems to disclose sensitive information in order to gain access to Homestead's data or that of the Funds' investors. A successful penetration or circumvention of the security of Homestead's systems could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, Homestead, or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Homestead or the integrity of Homestead's management. Homestead has no information applicable to this Item.

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

As noted in Item 4.B above, Homestead Capital USA Farmland Fund I GP, L.L.C. is the general partner of Fund I, Homestead Capital USA Farmland Fund II GP, L.P. is the general partner of Fund II and Homestead Capital USA Farmland Fund III GP, L.P. is the general partner of Fund III. The General Partners are owned and controlled by Mssrs. Santos and Little.

Homestead and its personnel can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of the Funds that will neither be subject to an offset against any Management Fees payable to the Funds nor will otherwise be shared with the Funds, investors and/or portfolio companies. For example, airline travel or hotel stays incurred as Fund or account expenses typically result in cash rebates, "miles," "points" or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not de minimis or difficult to value, inure exclusively to Homestead and/or such Homestead personnel (and not the Funds, investors and/or portfolio companies) even though the cost of the underlying service is borne by the Funds, investors and/or portfolio companies.

### **Item 11 – Code of Ethics**

Homestead has adopted a Code of Ethics for all access persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics is designed to prevent improper personal trading, prevent insider trading and identify and provide a means to resolve potential conflicts of interest. All access persons at Homestead must acknowledge the terms of the Code of Ethics initially upon employment, annually thereafter, or upon any material amendment.

*Interest in Client Transactions.* As noted in Item 10 and elsewhere, affiliated entities of ours serve as the general partners of the Funds. The Fund I General Partner is committed to invest 1% of the capital commitments to Fund I, up to a maximum of \$1,500,000. The Fund II General Partner is committed to invest 1% of the capital commitments to Fund II, up to a maximum of \$1,500,000. The Fund III General Partner is committed to invest at least \$4,000,000 of the capital commitments to Fund III. Three of the principals invested in Fund I as a result of its commitment and five of the principals and/or employees invested in Fund II as a result of its commitment. In addition, with respect to Fund III and future funds, principals and/or employees will be permitted to, and it is anticipated, will invest alongside other investors. Principals and employees are not allowed to invest in individual assets alongside the Funds. These investments in our Funds involve only a small portion of each Fund's total capital, but may, during the initial raising of a Fund, constitute a more significant portion of committed capital before other investors are admitted.

Subject to the Code of Ethics and applicable laws, officers, directors and employees of Homestead and its affiliates may not trade for their own accounts in securities which are recommended to and/or purchased for Homestead's clients. While it is not currently expected that Homestead will invest client assets in traditional equity securities, the Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Homestead will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, the Code requires pre-clearance of certain transactions, including investments in IPOs or private offerings. Employee trading is monitored under the Code of Ethics in order to attempt to reasonably prevent conflicts of interest between Homestead and its clients.

Homestead's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Chief Compliance Officer.

Although it is not anticipated that Homestead will invest in equity securities, it is Homestead's policy that the firm will not effect any principal or agency cross securities transactions for client accounts. Homestead will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Homestead may enter into borrowing arrangements that require a Fund and its portfolio company to be jointly and severally liable for certain obligations. If the Fund or its portfolio

company defaults on such an arrangement, the Fund may be held responsible for the defaulted amount. Additionally, the Funds may serve as a joint and several guarantor for loans between a portfolio company and a third-party lender. The collateral for such loans and guarantees could include a grant of a security interest in any of the Fund's assets as well as real and personal property. If the portfolio company defaults on such an arrangement, the Fund may be held responsible for the defaulted amount. The Funds will only enter into such borrowing arrangements when the General Partner determines it is in the best interests of the Funds.

## **Item 12 – Brokerage Practices**

The investment strategies Homestead employs for the Funds do not generally involve the type of securities transactions that require the use of a securities broker or dealer. However, when circumstances warrant or otherwise require, Homestead may make use of securities brokers or dealers in connection with purchases or sales for hedging purposes. To the extent applicable, Homestead would seek to execute these transactions in a manner that the Funds' total cost or proceeds in each transaction is the most favorable under the circumstances. Homestead does not consider research provided by securities brokers or dealers in selecting broker-dealers for such transactions, and Homestead does not have any soft dollar arrangements with broker-dealers.

Nonetheless, Fund investors should expect that Fund transactions will generate certain costs related to all Fund transactions, even where Homestead does not use a securities broker or dealer (e.g., costs incurred related to legal expenses, investment bankers, environmental experts, and other service providers), all of which are borne by the Funds, and not by Homestead.

Moreover, under the terms of each Fund's constituent documents, Homestead has the power to select other service providers, including real estate brokers. In selecting service providers, including real estate brokers, Homestead considers a number of factors, including: execution capability, fees or commissions, knowledge of markets, experience, reputation, capitalization, and current market conditions.

*Trade Aggregation.* Because Homestead typically only invests on behalf of a single Fund at any given time, Homestead generally does not have the opportunity to aggregate the purchase or sale of securities for multiple clients. However, to the extent that Homestead enters into a transaction on behalf of a Fund, the transaction is "aggregated" in that each entity participates in the transaction pro rata with its interest.

## **Item 13 – Review of Accounts**

Due to the continuous nature of farm activities, Homestead principals and employees are continuously overseeing the properties owned by the Funds, with a formal quarterly review of each of the Funds' assets. The oversight and reviews are performed by Daniel Little, Head of Portfolio Management and Gabriel Santos, Head of Acquisition and Structuring, with the

assistance of the regional farm managers and other Homestead personnel. The substance of the review and oversight includes, among other things, farm management activities such as planning for the farms, financial and accounting and operations.

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

There are currently no client referrals or paid solicitation arrangements.

#### **Item 15 – Custody**

Homestead is deemed to have custody of the Funds' assets because Homestead is affiliated with each Fund's general partner. As permitted by Advisers Act Rule 206(4)-2, Homestead generally provides Fund investors with the respective Fund's annual audited financial statements prepared by an independent public accountant within the timeframe prescribed by Rule 206(4)-2.

#### **Item 16 – Investment Discretion**

Homestead has discretionary authority to manage the assets of the Funds in a manner that is consistent with the objectives and strategies set forth in the Funds' offering documents.

#### **Item 17 – Voting Client Securities**

While it is not anticipated that Homestead will invest in equity securities, clients may obtain a copy of Homestead's complete proxy voting policies and procedures upon request. Clients may also obtain information from Homestead about how Homestead voted any proxies on behalf of their account(s) (if applicable).

#### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Homestead's financial condition. Homestead has no information to report that is applicable to this Item.

#### **Item 19 – Requirements for State-Registered Advisers**

N/A