

## **FIRM BROCHURE**

### **TXRE ADVISERS, LLC**

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**This brochure provides information about the qualifications and business practices of TXRE Advisers, LLC. If you have any questions about the information contained in this brochure, please contact us at (972) 201-2841. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**This brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible persons by means of delivery of governing documents that contain a description of the material terms relating to such investments, products or services.**

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

March 30, 2016

## Item 2: Material Changes

The date of our last annual updating amendment to our firm brochure was on March 31, 2015. A summary of material changes made to this firm brochure since the last annual updating amendment is set forth below:

- We included clarifying language distinguishing our Fund clients and SPV clients and have updated our regulatory assets under management as of December 31, 2015. **See Item 4.**
- We included additional disclosures regarding client fees and expenses, including distinctions between expenses paid by the US Funds, European Fund and SPVs. **See Item 5.**
- We added a risk factor regarding cybersecurity risks. **See Item 8.**
- We added additional disclosures regarding certain real estate and other activities of our affiliates and affiliated borrowing arrangements. **See Item 10.**

*The information set forth in this brochure is qualified in its entirety by the applicable offering and/or governing documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable offering and/or governing documents, such documents will control.*

*We encourage all clients and investors to carefully review this document in its entirety.*

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## Item 4: Advisory Business

### FIRM DESCRIPTION AND OVERVIEW

TXRE Advisers, LLC, a Delaware limited liability company and private investment management firm (“TXRE,” “we,” “our,” or “us”), was formed in 2011. We provide and/or perform Investment Advisory Services to various affiliated pooled investment vehicles and other entities that invest, directly or indirectly, in real estate and real estate-related investments. As used herein, “Investment Advisory Services” means investment advice as to the value of securities or the advisability of investing in, purchasing or selling securities or any other services, activities or functions that would, absent an exclusion or exemption, cause a person to be an “investment adviser” within the meaning of Section 202(a)(11) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Certain of our affiliates provide investment management and other services with respect to our clients.

We do not act as general partner with respect to any of our clients. Instead, we supervise, oversee and control any and all Investment Advisory Services provided with respect to our clients, and certain of our affiliates rely on our investment adviser registration instead of separately registering as investment advisers with the Securities and Exchange Commission (the “SEC”) under the Advisers Act. **See Item 10.** Except as the context otherwise requires, any reference to “we,” “us” or “our” in this document includes TXRE Advisers, LLC and any affiliates relying on our registration.

### PRINCIPAL OWNERS

The sole member of TXRE Advisers, LLC is Hillwood Development Company, LLC, whose sole member is Hillwood Development Group, L.P. Perot Investment Trust I ultimately owns over 25% of the limited partnership interests of Hillwood Development Group, L.P. For more information regarding our executive officers and ownership, please refer to Schedules A and B of Part 1 of Form ADV.

### TYPES OF ADVISORY SERVICES

We currently provide and/or perform Investment Advisory Services with respect to HIP Industrial Partners, L.P., a Delaware limited partnership (“Fund I”), US Industrial Fund II, LP, a Delaware limited partnership (“Fund II” and, together with Fund I, the “US Funds”), US Industrial Fund II REIT Inc., a Delaware corporation (“Fund II REIT”), HE Investments SICAV-FIS, an investment company with variable capital – specialized investment fund incorporated as a partnership limited by shares under the laws of the Grand Duchy of Luxembourg (the “European Fund” and together with the US Funds and Fund II REIT, the “Funds”, and each, a “Fund”), and monitor, supervise, oversee and control any and all Investment Advisory Services provided with respect to the Funds. In addition, we provide and/or perform Investment Advisory Services with respect to various special purpose investment vehicles that have one or more third party partners, including EU Project, LLC (“EU Project”), NB Project, LLC (“NB Project”), and Cannery Project, LLC (“Cannery Project” and, together with NB Project, EU Project, the “SPVs” and together with the Funds, our “clients”). The third party investors in SPVs typically are more actively involved in reviewing and approving investments and related expenses. As noted in Schedule D – Miscellaneous of Part 1A of Form ADV, we do not provide “continuous and regular supervisory or management services” with respect to NB Project or Cannery Project.

We provide Investment Advisory Services to clients with respect to real estate and real estate related investments (either directly or indirectly through one or more real estate investment trusts, limited partnerships, limited liability companies and/or other special purpose vehicles). Our Investment Advisory Services are provided in accordance with the investment objectives, policies and guidelines set forth in the applicable disclosure and governing documents. **See Item 8 below.**

As noted above, certain of our affiliates provide and may provide investment management, administrative and other services with respect to clients and their investments, including development services, property management services, leasing services, general contractor services, lending, financial advisory, engineering, consulting, or investment research, administrative services and other services necessary for the acquisition, management, operation, financing, improvement, leasing and disposition of investments.

We and/or our affiliates may provide and/or perform Investment Advisory Services and other services with respect to one or more other clients in the future, including, but not limited to, additional pooled investment vehicles, special purpose vehicles or entities and separately managed accounts of institutional clients.

## **INVESTMENT RESTRICTIONS**

We generally provide and/or perform Investment Advisory Services with respect to each client in accordance with the investment objectives, policies, guidelines, limitations and restrictions set forth in the applicable management and/or offering or governing documents. Any investment restrictions with respect to a client typically are memorialized in the applicable governing and offering documents. We provide and perform Investment Advisory Services solely with respect to the Funds and SPVs, and no investor in any such Fund or SPV should look to us or our affiliates for advice regarding any of its own investment decisions, including any decision to invest in a Fund or SPV. We generally treat the Funds and SPVs, and not any of their investors, as our “clients” for purposes of the Advisers Act and other applicable laws and regulations, to the extent permitted under such laws.

Certain of the Funds and their general partners have entered into, and may from time to time in the future enter into, letter agreements or other similar agreements (commonly referred to as “side letters”) with certain investors in such Fund that have the effect of establishing rights and/or otherwise benefitting such investors in a manner that is more favorable in various material respects than the rights and benefits established in favor of one or more other investors pursuant to the applicable governing documents. Such rights or benefits in any side letter or similar agreement may include, without limitation, (i) investment capacity rights, (ii) reporting obligations of the applicable general partner, manager or us and/or preferential information rights, (iii) waiver of certain confidentiality obligations, (iv) consent of the general partner to certain transfers by such investor, or (v) rights or terms necessary or advisable in light of particular legal, regulatory or public policy considerations of an investor. Certain investors that have the benefit of “most favored nation” protection are given the opportunity to elect the rights and terms in any side letter or other similar agreement that are applicable to such investors.

## **ASSETS UNDER MANAGEMENT**

As of December 31, 2015, we had approximately \$1,233,007,191 in regulatory assets under management (as reflected in Item 5.F.(2) of Part 1A of our Form ADV). All of these assets were managed on a discretionary basis (either directly or indirectly). For purposes of calculating our regulatory assets under management, we have only included the assets of a subset of our clients for which we provide or may be deemed to provide “continuous or regular supervisory or management services” with respect to “securities portfolios” (as such terms and concepts are described and defined in the instructions to Part 1 of Form ADV). Accordingly, only the assets of the US Funds, the European Fund, and EU Project are included and reflected in the “regulatory assets under management” number set forth above and in Part 1 of Form ADV. We have excluded the assets and commitments of Fund II REIT that are attributable to Fund II and the assets and commitments of the European Fund that are attributable to EU Project in order to avoid double counting.

## Item 5: Fees and Compensation

### DESCRIPTION OF COMPENSATION AND FEE SCHEDULE

In consideration of our Investment Advisory Services, we and/or certain of our affiliates generally are or may be entitled to receive management fees and incentive distributions with respect to our clients. In addition, our affiliates may also be entitled to receive other types of compensation from or with respect to our clients including, without limitation, development fees, construction management fees, disposition fees and termination fees. While applicable fees and other compensation are described in detail in the applicable governing or offering documents and/or service agreements, a general overview of such fees and compensation is set forth below. The following summary is qualified in its entirety by the applicable governing and offering documents of each applicable Fund.

**Management fees.** With respect to the US Funds and the European Fund, we (or one or more of our affiliates) may be entitled to receive, on the first day of each calendar quarter in advance (or at such other times set forth in the applicable governing agreement), an investment management fee equal to a percentage of each investor's net equity invested or aggregate capital commitment. The management fee percentage with respect to each investor generally is subject to negotiation and may be forth in a separate agreement between the Fund and such investor.

Notwithstanding the foregoing, the management fees with respect to the US Funds and the European Fund generally are reduced and offset by the amount (i) by which the formation or restructuring expenses exceed a certain amount set forth in the governing document and (ii) of any fees paid by the Fund and/or its subsidiaries to our affiliates with respect to any "affiliate in-house services" (i.e., services which would otherwise be provided by third parties, including lending, financial advisory, engineering, consulting or investment research) provided by such affiliate. Any management fee offset generally is applied to reduce the management fee to be made in the immediately succeeding fiscal quarter, but not below zero; *provided* that if the aggregate amount of management offsets during any fiscal quarter exceed the management fee owed for such fiscal quarter, then such excess will be carried forward and reduce the management fee to be made for the next fiscal quarter. The management fee offset is applied proportionately among investors based on their relative capital commitments. Development fees, property management fees, construction management fees, real estate and leasing fees and general construction fees (as described below) generally will not reduce or offset the management fees.

Fund II REIT, EU Project, NB Project and Cannery Project currently do not pay any direct management fees or incentive distributions (or other performance-based compensation) to us or any of our affiliates.

**Incentive Distributions.** Subject to the terms and conditions set forth in the applicable governing documents, the general partner of the US Funds and the European Fund (or one of our affiliates) generally may be entitled to receive an incentive distribution in respect of each unaffiliated investor in such Fund that is generally up to 20% of each such investor's profit from each portfolio investment made by such Fund and its subsidiaries, subject to (i) the satisfaction of a preferred internal rate of return, compounded annually, and (ii) recoupment of prior net losses, expenses and fees by such investor in such Fund. Incentive distributions are subject to clawback from the general partner under certain circumstances, as described below.

If, upon liquidation of a Fund and after making all distributions required under the applicable governing documents, its general partner has received incentive distributions in respect of an investor (plus any tax distributions in respect thereof) in excess of the "promote amount" with respect to such investor, or such investor has not received aggregate distributions pursuant to the governing documents sufficient to provide such investor with the applicable cumulative internal rate of return (the "IRR Shortfall Amount"), then the general partner will be required to contribute to the capital of the Fund for distribution to such investor an amount equal to the greater of (i) the excess of the aggregate incentive distributions in respect of such investor and tax distributions in respect of such investor received by the general partner over the promote amount in respect of such investor, and (ii) the IRR Shortfall Amount.

The general partners of the Funds also may reduce or eliminate incentive distributions with respect to limited partners that are affiliated with such general partner.

**Development Fees.** In connection with each portfolio investment, a Fund or a subsidiary thereof may enter into a transaction services agreement with one or more of our affiliates, pursuant to which our affiliates will provide transaction services with respect to such portfolio investment and the Fund or the applicable subsidiary thereof generally will pay a development fee equal to four percent (4.0%) (or such lesser or greater percentage or amount

set forth in the applicable governing documents) of the development costs of such portfolio investment.

**Property Management Fees.** In connection with each portfolio investment, a Fund or a subsidiary thereof may enter into a property management agreement with one of our affiliates, pursuant to which our affiliate will provide various property management services with respect to such portfolio investment. In the event that a Fund or a subsidiary thereof enters into a property management agreement, it generally will pay a property management fee equal to the greater of: (i) three thousand dollars (\$3,000) per month, or (ii) three percent (3.0%) of the base rent for the applicable portfolio investment (or such other amount set forth in the applicable governing agreements).

**Construction Management Fees.** In connection with a portfolio investment which is to be redeveloped, renovated, refurbished or otherwise repositioned, or with respect to which a Fund or a subsidiary thereof will construct tenant improvements, a Fund or a subsidiary thereof generally may pay one of our affiliates a construction management fee that is calculated based upon a percentage (typically from 2% to 5%) of the applicable improvement costs.

**Real Estate & Leasing Fees.** In connection with a portfolio investment, a Fund or a subsidiary thereof may enter into a broker agreement for the purchase, sale or lease of industrial property with one of our affiliates, pursuant to which such affiliate will serve as the buyer's, seller's, or leasing agent for the portfolio investment. A Fund or a subsidiary thereof generally may pay market-rate commissions to the applicable affiliate based on the type and size of the property and the geographic area in which it is located.

**General Construction Contracts and Fees.** In connection with a portfolio investment, a Fund or a subsidiary thereof may enter into a construction agreement with one of our affiliates where the basis of payment is the cost plus a fee with a guaranteed maximum price, pursuant to which our affiliate will provide general contractor services with respect to such portfolio investment. A Fund or a subsidiary thereof generally may pay a general contractor fee equal to 3.5% (or such other percentage or amount set forth in the applicable governing agreements) of the cost of the work pursuant to the applicable construction agreement.

*In addition to management fees, incentive distributions, development fees, property management fees, construction management fees, real estate and leasing fees and general construction contracts and fees, we and/or our affiliates may receive various other types and forms of fees, payments and/or other compensation in connection with the services provided thereby.*

*Detailed information regarding the fees and compensation applicable to each Fund or other client is set forth in its governing documents (and related services agreements) and the summary set forth above is qualified in its entirety by such governing documents. The applicable fees and compensation will vary from Fund to Fund based upon the terms and conditions set forth in the applicable governing and service agreements thereof.*

## **PAYMENT OF FEES**

Management fees generally are payable quarterly, in advance, on the first day of each calendar quarter (or such other time set forth in the applicable governing document or side letter agreement). The general partners of the Funds have the discretion to pay management fees from capital contributions drawn for such purpose, proceeds received in respect of any investments, or any other funds or other assets determined by the general partner to be available. The management fee will be prorated for any period less than a full calendar quarter based upon the number of days during such period. In the event of termination of the investment management agreement with a Fund, the management fee and any reimbursements of expenses will be paid up to and through the date of termination.

Incentive distributions generally are distributed to the general partners of the Funds quarterly or more frequently at the election of the applicable general partner.

Any other applicable fees or compensation (including development, property management, leasing and other types of fees) with respect to a Fund or other client will be payable in accordance with the terms set forth in the applicable governing documents.

## **OTHER FEES AND EXPENSES**

Detailed information regarding the various expenses and costs borne by or allocated to each Fund is set forth in its governing documents. In addition to management fees, incentive distributions, development fees, property management fees, leasing fees, construction management fees and any other applicable fees and compensation, we and/or our affiliates generally are reimbursed by the Funds and/or their direct or indirect subsidiaries for certain fees, expenses and costs incurred by us and/or our affiliates on behalf thereof, including, without limitation, (i) all

fees and out-of-pocket costs and expenses incurred in connection with the formation of the Funds, non-investment specific subsidiaries, the general partners (and their general partners) and any alternative investment vehicles or parallel funds and the admission of limited partners and investors to parallel funds other than placement agent fees, including, travel, legal, accounting, filing and all other expenses incurred in connection with the offer and sale of interests in such clients and such parallel funds, subject to the terms and conditions set forth in the partnership agreements; (ii) all charges and expenses of our clients and their respective subsidiaries' operations, including maintaining bank accounts or of any banks, custodians or depositories appointed for the safekeeping of investments or other property of our clients or any subsidiary, all costs of bookkeeping and accounting services and all audit and other expenses associated with the preparation and distribution of financial statements and reports to any investor; (iii) all costs related to our clients' or their respective subsidiaries' operations (including, for the avoidance of doubt, costs and expenses paid or reimbursed at the project level, which will be indirectly borne by clients and the limited partners); (iv) costs and expenses related to the acquisition, ownership, management, operation, financing, hedging or sale of investments; (v) interest on, and fees and expenses arising out of, all borrowings; (vi) extraordinary expenses (including litigation); (vii) travel costs and other expenses associated with investigating and evaluating investment opportunities (whether or not consummated), making, monitoring, managing or disposing of investments, or conducting other activities on behalf of our clients (which includes first or business class commercial travel and may, on occasion, include the use of non-commercial planes, lodging, meals, entertainment and communications relating to the foregoing); (viii) the costs of any third parties and, subject to the partnership agreement, any sponsor affiliates, retained to provide services to our clients, subsidiaries or portfolio investments; (ix) all other expenses incurred by the general partners of our clients or any respective affiliate in connection with organizing any subsidiary, operating Funds and SPVs, their respective subsidiaries or their respective portfolio investments or performing the duties of the general partner under the respective partnership agreements, other than (a) ordinary and usual office overhead expenses, furniture, fixtures and office equipment of such general partner or any affiliate, and (b) compensation of the employees of any affiliate, unless such overhead or compensation expenses constitute services which would otherwise be provided by third parties.

Out-of-pocket expenses incurred by us or our affiliates in connection with the acquisition, holding or disposition of portfolio investments are or may be reimbursed by the project (or subsidiary), pursuant to relevant governing agreements. Out-of-pocket expenses incurred in evaluating potential investments that are ultimately not pursued ("dead deal costs") generally are reimbursed and paid by the applicable Fund. We or our affiliates pay our proportionate share of such dead deal costs as investors in the Fund (to the extent applicable). The Funds or subsidiaries may pay or reimburse expenses related to the provision of gifts or entertainment events to real estate professionals or other service providers that provide services that benefit such client or subsidiaries. If any fees, costs or expenses are incurred jointly for a client or any subsidiary and any other account or entity sponsored or managed by us or our affiliates, those expenses generally would be allocated among such applicable clients or entities in proportion to the size of the investment made by each such client or entity to which the expense relates, or in any other manner as we reasonably determine to be fair and equitable under the circumstances, subject to the governing documents.

The foregoing list is not intended to be exhaustive and is qualified in its entirety by the applicable governing documents of each Fund. We may disclose certain information about the amount and nature of Fund and other client expenses in Fund financial statements, capital call notices and other investor communications. However, investors may not receive detailed information regarding specific expenses paid by a client or its subsidiaries.

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 brokerage commissions. To the extent applicable, the Funds will be responsible for and pay any of their respective custodial fees and expenses. **See Item 12 below.**

The investment strategies we employ for the Funds may involve expenses paid by the Funds and their subsidiaries that are related to legal, tax, regulatory and other issues, as well as the costs of other service providers and intermediaries that may be involved in the purchase or divestment of investments.

#### **OTHER EUROPEAN FUND FEES AND EXPENSES**

In addition to the fees described above, the European Fund pays a service fee to the Alternative Investment Fund Manager ("AIFM") that it has engaged to ensure compliance with applicable EU laws and may reimburse the AIFM for expenses incurred on the European Fund's behalf, consistent with the governing agreements. The European Fund will reimburse us or an affiliate for all investment related expenses (but not overhead expenses) incurred in relation to the European Fund, including without limitation (i) all reasonable costs and expenses related to the



acquisition development management and disposition of investments whether or not any such transaction is successfully completed including reasonable legal, accounting and other expenses incurred in connection with the investments of the European Fund; (ii) all reasonable costs and expenses of financings and refinancing for the European Fund whether or not any such transaction is successfully completed; and (iii) all reasonable costs and expenses related to the identification and due diligence evaluation of potential investments whether or not any such transaction is approved or successfully completed. Consistent with governing documents, the European Fund pays or reimburses the salary and compensation of the Fund Controller, who is currently an employee of a European Fund affiliate.

#### **SPV EXPENSES**

The SPVs generally bear the fees and expenses set forth in the applicable governing documents, or as otherwise agreed to in agreements with the third party investors in such SPV (including some, most or all of the expenses described above with respect to the US Funds). Such expenses may include development fees, property management fees, construction management fees, real estate and leasing fees, and general construction and contracting fees, as discussed above, paid to us or our affiliates, or to SPV investors, as well as costs incurred pursuant to affiliated borrowing arrangements, as described in Item 10 below. The SPVs generally only pay dead deal costs related to specific projects in which such SPV is invested or expected to invest, but do not pay general pursuit costs or dead deal expenses for other potential investments. The SPVs or underlying investment projects may pay or reimburse expenses related to the provision of gifts or entertainment events to real estate professionals or other service providers that provide services that benefit such investment project.

#### **COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

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

As noted under Item 5 above, we or an affiliate are entitled to receive performance-based compensation (in the form of incentive distributions) with respect to certain clients. The incentive distribution is effectively equivalent to a percentage of a Fund's net profits, subject to certain terms and conditions set forth in the governing documents of such Fund. Any share of Fund net profits paid to us or our affiliate is separate and distinct from any annual management fee (or any other fees) charged by us or any of our affiliates to the Funds. As a fiduciary, we recognize that we must treat all of our clients fairly and must refrain from favoring one client's interests over another client.

Incentive distributions could motivate or create an incentive for us and our affiliates to recommend investments and make investment decisions that are or may be riskier or more speculative than would be the case if only asset-based management fees were charged. For example, an incentive distribution generally entitles the general partner of each Fund to a percentage of the net profits of such Fund; however, the general partner is not required to bear the same proportion of the net losses, if any, suffered by a particular Fund. We attempt to mitigate conflicts of interest associated with an incentive distribution through: (i) the requirement that invested capital, a preferred return and expenses be returned to investors before the general partner is entitled to receive any incentive distributions; (ii) the requirement that each general partner and/or its affiliates have a capital commitment to the applicable Fund; and (iii) the clawback obligation of each general partner upon liquidation of the applicable Fund.

In addition, in allocating investment opportunities, there could be potential incentives to favor a Fund with higher potential performance-based compensation over Funds with lower or no potential performance-based compensation. We are focused on managing conflicts of interest and monitoring the allocation of investment opportunities in these contexts and endeavor to resolve any material conflict with respect to investment opportunities in a manner that we deem equitable under the particular facts and circumstances, consistent with our fiduciary duties. Moreover, we generally allocate investment opportunities in accordance with the allocation policies and procedures set forth in the applicable governing documents of each Fund. See "Allocations of Investment Opportunities" in Item 11.

The method of calculating the incentive distribution may also result in conflicts of interest with respect to the management and disposition of investments, including the sequence of dispositions.

Certain of our individual supervised persons and/or affiliates may be compensated to some extent based upon investment profits for which they are responsible and, accordingly, may face the same potential conflicts as described above.

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

We currently only provide and/or perform Investment Advisory Services with respect to certain affiliated pooled investment vehicles and special purpose vehicles (the Funds and SPVs) that invest directly or indirectly in real estate and real estate related investments. Notwithstanding the foregoing, we may provide and/or perform Investment Advisory Services with respect to other clients from time to time in the future.

Each investor in the Fund must satisfy the eligibility requirements outlined in the applicable governing documents or otherwise required by applicable laws. Investments in the Funds may also be subject to minimum initial investment amounts per investor, which generally may be waived.

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

### METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

#### US Funds

The US Funds' primary investment objective is to generate both capital appreciation and operating cash flow on a value-add basis by acquiring, improving, developing, leasing, maintaining, owning, operating and managing portfolio investments in the industrial sector in the United States. The US Funds utilize one or more special purpose vehicles as subsidiaries to make and hold investments, including, without limitation, real estate investment trusts (including Fund II REIT) ("REITs"), limited liability companies, partnerships or other types of entities.

In analyzing potential investments, market research is performed through a combination of third party written materials, broker discussions and first-hand knowledge of personnel assigned to or familiar with the markets/transactions being evaluated. Once a potential investment is identified, asset specific research includes review of due diligence provided by the owners of the property/portfolio, analyses provided by any required third party consultants (*i.e.*, engineers, environmental, survey, title and others, as required), asset inspections and market tours.

Decisions regarding acquisition and/or disposition of investments are made based on consideration of expected risk-adjusted returns. When making investment decisions, we consider, among other things, suitability of the investment for the applicable US Fund, various underwriting criteria related to the asset (*e.g.*, in place and expected rents and occupancy), expected costs to lease the asset (including tenant improvement costs, brokerage commissions and capital improvements) and the current and anticipated market "capitalization rate" expected for the asset. Ultimately the expected gross profitability of an investment is measured using equity multiples and internal rate of return. Asset management decisions (*e.g.*, lease negotiations, capital improvements, etc.) are made in the context of maintaining or increasing the value of an asset.

Investment risks are analyzed by the transaction team through consideration of qualitative and quantitative analyses and the use of third party consultants.

The general partner of the general partner of each US Fund has formed two internal committees, an "investment committee" and an "operating committee" to assist the general partner, us and our affiliates in carrying out their duties under the applicable partnership agreement and management agreement and to approve various other matters and transactions. In general, the unanimous consent of the "investment committee" is required with respect to the acquisition and disposition of any portfolio investments and the consent of a majority of the "operating committee" is required with respect to various other matters relating to each US Fund.

#### Fund II REIT

Fund II REIT is a wholly-owned subsidiary of Fund II and special purpose vehicle established to invest directly through one or more limited liability companies, limited partnerships or other entities in real estate or real estate related assets. As such, the investment strategy is the same as the US Funds, as described above.

#### European Fund

The primary investment objective of the European Fund is to generate both capital appreciation and operating cash flow on a value-add basis by indirectly acquiring, improving, developing, leasing, maintaining, owning, operating and managing industrial real estate properties and assets located in Europe. The European Fund currently focuses on acquiring industrial real estate properties and assets located in Poland and Germany, but may make investments in other countries in Europe with the consent of a supermajority of the advisory board of the European Fund. The European Fund will only acquire "mandate investments" located in Europe that target the minimum gross leveraged returns set forth in the offering memorandum and all such investments must be consistent with the European Fund's target of an overall gross leveraged return of 15.5% as a portfolio. The European Fund generally utilizes one or more special purpose vehicles as subsidiaries to make and hold investments, including, without limitation, partnerships, companies, joint ventures and other types of entities. The European Fund may engage partners in joint ventures to provide services with respect to investments.

The European Fund's dedicated alternative investment fund manager (the "AIFM") generally will be responsible for, among other things, the investment management of the assets of the European Fund (including portfolio and/or

risk management with respect to such assets). Pursuant to the terms of the investment advisory agreement between the AIFM and us, we generally are responsible for advising the AIFM in relation to the management of the European Fund and the AIFM generally will act in accordance with or based upon our advice and recommendations. Our services will include, without limitation, proposing allocation of the European Fund's assets in different target investments, monitoring of the target investments, advising in respect of liquidity and cash management, advising in respect of borrowings and coordination of the overall investment process. The AIFM generally will act in accordance with or based on our investment advice and recommendations. The general partner of the European Fund, which is ultimately controlled by us, has a veto right over all investment and divestment decisions to be taken by the AIFM.

The AIFM has established and maintains a dedicated risk management function that implements effective risk management policies and procedures in order to identify, measure, manage and monitor on an ongoing basis all risks relevant to the investment objectives of the European Fund, including market, credit, liquidity, counterparty, operational and all other relevant risks. The AIFM is responsible for applying a comprehensive process based upon qualitative and quantitative risk measures to assess the risks of the European Fund. The AIFM also employs appropriate liquidity management methods and adopts procedures which enable it to monitor the liquidity risk of the European Fund, which include the use of stress tests under both normal and exceptional liquidity conditions. The AIFM is responsible for ensuring that the investment and financing strategy, the liquidity profile, the distribution policy and the redemption policy are consistent with liquidity needs.

With respect to the European Fund, we have established two internal committees, an "investment committee" and an "operating committee", to assist us in carrying out our duties with respect to the European Fund. In general, the unanimous consent of the investment committee is required with respect to any recommendation that the European Fund acquire, sell or exchange a mandate investment (among other things) and the consent of a majority of the operating committee is required with respect to various other matters relating to the European Fund.

#### EU Project

One of our affiliates established EU Project as a pooled investment vehicle to indirectly acquire class A shares of the European Fund and certain other direct or indirect real estate related interests and assets.

#### NB Project and Cannery Project

Each of NB Project and Cannery Project is a private pooled investment vehicle established to invest, indirectly through one or more limited partnerships, limited liability companies or other entities, in a specific real estate property or asset (or group of related real estate properties and/or assets). As noted herein, we do not provide continuous and regular supervisory or management services with respect to NB Project or Cannery Project.

\* \* \* \*

The investment strategies summarized above are not intended to be comprehensive. In addition to the Funds and the SPVs, we, our affiliates and/or certain of our affiliates may perform and/or provide Investment Advisory Services and other services with respect to one or more new or additional clients in the future. For more information regarding our investment strategies, please contact us.

#### **CERTAIN RISK FACTORS**

***There can be no assurance that the Funds or other clients will achieve their respective investment objectives or that investments in the Funds or other clients will be profitable. The Funds' and other clients' investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that the Funds' and other clients' investment strategies are low risk or risk free. The Funds' and other clients' investment strategies are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with the Funds' and other clients' investment strategies and processes. All or a subset of the risk factors set forth below apply or may apply with respect to an SPV and its investment(s).***

***General Investment Risks.*** All investments risk the loss of capital. No guarantee or representation is made that our Investment Advisory Services will be successful or profitable. Real estate investments are subject to various specific risks, many of which are beyond our control, such as adverse changes in international, national or local economic and demographic conditions; local conditions (such as an oversupply of space or a reduction in demand for space);

the quality and philosophy of management; competition based on rental rates; adverse changes in financial conditions of tenants, buyers and sellers of properties; quality of maintenance, insurance and management services; reduction or change in sources of debt or equity financing, including changes in interest rates; increases in real estate taxes and operating expenses, including energy prices; changes in law, regulations and governmental policies, including environmental laws, health and safety laws, zoning laws and governmental fiscal policies; potential liability under changing environmental and other laws; changes in the relative marketability of properties; cyclical over-building in property sectors; risks due to dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; structural or property latent defects; natural and unnatural disasters; acts of terrorism and vandalism; uninsurable losses; condemnations and others. As a result, a Fund may be subject to claims and expenses in respect of an asset in excess of its investment in such asset, which could lead to losses.

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

*Adverse Economic Conditions in Geographic Markets.* The economic performance of the Funds' properties could be affected by changes in local economic conditions. The performance of each Fund is therefore linked to economic conditions in areas where such Fund acquires properties and in the real estate market generally. Therefore, to the extent that there are adverse economic conditions in an area and in the real estate market generally that impact the market, such conditions could result in a reduction of income and adversely affect the investment results of the applicable Fund.

*Expiration or Lack of Credit Enhancements.* A lease may have credit enhancement provisions, such as guarantees or shortfall reserves provided by a third-party tenant or operator. These credit enhancement provisions may terminate at either a specific time during the lease term or once net operating income of the property exceeds a specified amount. These provisions also may have limits on the overall amount of the credit enhancement. After the termination of a credit enhancement, or if the maximum limit of a credit enhancement is reached, the applicable Fund or underlying real estate investments may look only to the tenant to make lease payments. If a credit enhancement has expired or the maximum limit has been reached, or if a provider of a credit enhancement is unable to meet its obligations, results of operations could be directly or indirectly adversely affected if such properties are unable to generate sufficient funds from operations to meet minimum rent payments and the tenants do not otherwise have the resources to make the rent payments. In addition, some leases may not have any credit enhancements, so that the applicable Fund may look only to the tenant to make lease payments during the entire term of the lease.

*Restrictive Covenants.* In connection with obtaining certain financing, a lender may impose certain restrictions on a Fund which may affect its ability to incur debt and, thus, adversely affect the investment results of such Fund. Loan documents that a Fund enters into may contain negative covenants that limit its ability to further mortgage the property or impose other limitations.

*Failure to Make Debt Payments.* Loans obtained to fund property acquisitions generally are secured by first mortgages on such properties. If a Fund is unable to make its debt service payments as required, a lender could foreclose on the property or properties securing such debt. This could cause such Fund to lose part or all of its investment. Certain of a Fund's future indebtedness may be cross-collateralized. Consequently, a default on this indebtedness could cause such Fund to lose part or all of its investment in multiple properties.

*Lack of Control over Entities in Which the Fund Invests.* On occasion, we may recommend investments in an entity that either Fund will not control. As a result, in these situations, the Funds may not be able to control the decisions made by such entities. The entities holding investments may therefore make decisions that could be adverse to the applicable Fund. Such investments may also have potential risks of impasse on major decisions, such as sales or mergers, because the applicable Fund would not have full control over the partnership, limited liability company or other entity. In addition, any investment in an entity with co-owners may, under certain circumstances, involve risks not present were a co-owner not involved, including the possibility that partners or other co-owners might become bankrupt or fail to fund their share of required capital contributions. Partners or other co-owners may have economic or other business interests or goals that are inconsistent with the applicable Fund's business interests or goals, and may be in a position to take actions contrary to the applicable Fund's policies or objectives. Disputes between a

Fund and its partners or other co-owners may result in litigation or arbitration that would increase expenses and prevent such Fund from focusing its time and effort on its business. Consequently, actions by or disputes with partners or other co-owners might result in subjecting facilities to additional risk. The occurrence of any of the foregoing events could have a material adverse effect on a Fund's results of operations and may adversely affect its investment results.

*Competition.* We compete for investment and development opportunities with the following persons (among others):

- private investors;
- pension funds;
- insurance company investment accounts;
- real estate investment trusts;
- real estate partnerships;
- financial institutions; and
- local developers.

Many of these competitors have substantially greater financial and other resources than us and may have better relationships with developers and sellers. Additionally, these competitors may enjoy significant advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Moreover, the number of entities and the amount of funds competing for suitable investment properties may increase. However, increased competition from competitors may adversely affect our ability to recommend attractive investment opportunities, as well as the price for such investment opportunities.

There may be numerous other properties that compete with properties that we recommend to a Fund and that compete with such Fund for tenants. The number of competitive properties could have a material effect on such Fund's ability to rent space at their properties and the amount of rents charged. A Fund could be adversely affected if additional competitive properties are built in locations competitive with its properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require such Fund to make capital improvements to properties which it would not have otherwise made, thus affecting the investment results of such Fund.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of a Fund's investments may decline. For example, a substantial rise in inflation could reduce the value of a Fund's investments subject to leases if the inflation rate is high enough that percentage rent and automatic increases in base rent do not keep up with inflation.

*Construction Risks.* We may recommend that a Fund invest directly or indirectly in existing or newly constructed properties. We may also recommend investments in properties that are subject to completion of construction and development. If a Fund acquires a property for development or renovation, it may be subject to risks in connection with a developer's ability to control construction costs and the timing of completion of construction or a developer's ability to build in conformity with plans, specifications and timetables. In addition, development and renovation plans could be affected by delays in obtaining any necessary permits or consents from appropriate governmental agencies, strikes, adverse weather, shortages of materials and increases in the cost of labor and materials. Although we typically recommend safeguards that are designed to minimize these risks, such as rights to require the tenant to purchase the property that is under development at a pre-established price designed to reimburse the applicable Fund for all acquisition and development costs, there can be no assurance that the tenants will have sufficient funds to fulfill their obligations under these agreements. The builder's failure to perform may result in tenants terminating leases. These actions may increase the applicable Fund's costs or necessitate legal action by it to rescind the purchase of a property, to compel performance or to sue for damages. Any such legal action may result in increased costs to such Fund.

In addition, certain properties that we recommend may be subject to conservatory easements that prohibit the development of certain activities other than those specific activities already conducted on the property, and limit the ability to materially modify the existing layouts on the property.

We may recommend that a Fund (and/or its affiliates) enter into guaranteed maximum price contracts with developers for the development of new construction properties. Such contracts involve counterparty risk since

developers may not perform their contractual obligations in accordance with the terms of such contracts. In addition, such contracts may not be insured by surety bonds or guarantees, which would protect such entities in the event of loss or casualty. Without such protection, in the event of loss or casualty, such entities could lose their investments in such new construction properties.

*Real Estate Liquidation Risk.* Real estate and real-estate related investments are illiquid. The Funds may not be able to readily dispose of real estate assets or have the ability to react quickly to changing investment circumstances due to market conditions that could affect the market price of properties, thereby adversely affecting the Funds. Furthermore, a Fund may not have the authority to cause an entity through which it has made an investment to sell or refinance a real estate property or to refrain from selling or refinancing a real estate property.

*Market and Business Conditions.* Changes in general or local economic or market conditions, state or local statutes, state or local taxation, litigation, increased energy costs, insurance costs, product costs and labor costs, competitive factors, fuel or labor shortages, quality of management, the ability of a chain or franchisor(s) to fulfill any obligations to operators of its businesses, limited alternative uses for a building, changing consumer habits, condemnation or uninsured losses, changing demographics, changing traffic patterns, inability to remodel outmoded buildings as required by the franchise or lease agreement, voluntary termination by a tenant of its obligations under a lease, bankruptcy of a tenant, and other factors beyond a Fund's or its underlying investment properties' control, may reduce the value of investments, the ability of tenants to pay rent on a timely basis, the amount of the rent and the ability of borrowers to make mortgage loan payments on time.

Additionally, properties securing mortgages that are owned by a Fund may decrease in value from the date when the mortgage loan was made and the creditworthiness of the mortgagee may decrease. Therefore, investment risk will increase due to decreasing market values.

*Properties with Limited Operating History.* Newly-developed or newly-renovated properties generally will not have any operating or performance histories that will allow us to make objective pricing recommendations in acquisitions. The purchase prices of these properties are oftentimes based upon projections by us as to the expected operating results of such properties, subjecting the Funds to risks that such properties may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

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

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

*Payments from Tenants.* The success of our investment recommendations depends on rent payments from property tenants to generate returns and cash for the Funds. The Funds generally have no control over the success or failure of their tenants' businesses. Significant adverse changes in the operations of any facility, or the financial condition of any tenant, could have a material adverse effect on a Fund's ability to collect rent payments and, accordingly, on the investment results of such Fund. Failure on the part of a tenant to comply materially with the terms of a lease could give a Fund the right to terminate the lease with that tenant, repossess the applicable facility and enforce the payment obligations under the lease. However, such Fund then would be required to find another tenant. If a Fund is unable to re-let the properties, then it may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by the purchasers. Moreover, the bankruptcy of any of a Fund's tenants could delay its efforts to collect past due balances under its leases, and could ultimately preclude collection of amounts due to such Fund.



The occurrence of any of the foregoing events may adversely affect the timing of and the investment results of the Funds.

*Inability to Sell Property.* The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our and/or the Funds' control. We cannot predict whether a Fund will be able to sell any property for the price or on the terms set by them, or whether any price or other terms offered by a prospective purchaser will be acceptable to them. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. A Fund may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot guarantee that a Fund will have funds available to correct such defects or to make such improvements.

*Lease Terminations.* The Funds are subject to the normal risks associated with leasing property, including the risk that upon the expiration of leases for space located in the properties, the leases may not be renewed, the space may not be re-let or the terms of renewal or leasing (including any cost of required renovations or concessions to tenants) may be less favorable than current lease terms. If we are unable promptly to re-let a space or renew leases for a significant portion of a property's space or if the rental rates upon renewal or re-letting are significantly lower than expected rates, then the applicable Funds' earnings may be adversely affected. Vacancies may not be able to be filled in a timely manner or on acceptable contract terms.

*Special Purpose Properties.* Certain properties that we recommend may not be readily adaptable to other uses such as general residential, retail or office use. Therefore, if a property becomes unprofitable for its operator due to competition, age or improvements or other factors such that the tenant becomes unable to meet its obligations under the lease, the liquidation value of the property may be substantially less than if the property were readily adaptable to other uses. The receipt of liquidation proceeds could be delayed by the approval process of any state agency necessary for the transfer of the property.

*Environmental Risks.* Under various federal and state environmental laws and regulations, owners and operators of real estate may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials or petroleum products released on real estate properties. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. The presence of contamination or the failure to remediate contaminations at any such properties may adversely affect a Fund's ability to sell or lease the properties or to borrow using the properties as collateral. Furthermore, a person that arranges for the disposal or transports for disposal or treatment a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect a Fund's ability to sell such real estate or to borrow using such real estate as collateral.

Environmental liabilities that may be incurred, directly or indirectly, could have an adverse effect on a Fund's financial condition or results of operations and thereby adversely affect its investment results.

We typically expect to recommend that a Fund obtain Phase I environmental assessments on all of properties prior to acquisition. Phase I environmental assessments are intended to identify potential environmental contamination for which properties may be responsible. Phase I environmental assessments include historical reviews of the properties, reviews of certain public records, preliminary investigations of the sites and surrounding properties, screening for the presence of hazardous substances, toxic substances and underground storage tanks, and the preparation and issuance of a written report. Phase I environmental assessments do not include invasive procedures, such as soil sampling or ground water analysis. Thus, these environmental assessments may not reveal all environmental liabilities and there may be material environmental liabilities of which neither we nor the applicable Fund was aware.

*Capital Expenditures for Property Renovation.* Properties, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures, and equipment. Under the terms of certain of leases, a Fund may be obligated to pay the cost of expenditures for items that are necessary for the continued operation of its properties and that are classified under generally accepted accounting principles as capital items. If these capital expenditures exceed estimates, the additional costs could have an adverse effect on such Fund. In addition, we may recommend investments in properties that require significant renovations. Renovation of properties involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after

commencement of renovation and the emergence of unanticipated competition from properties.

*Property Tax Increases.* Properties may be subject to real and personal property taxes that increase as property tax rates change and as the facilities are assessed or reassessed by taxing authorities. Leases generally provide that the property taxes are charged to tenants as an expense related to the facilities that they occupy. As the owner of the facilities, however, the respective Fund is ultimately responsible for payment of the taxes to the government. If property taxes increase, tenants may be unable to make the required tax payments, ultimately requiring the respective Fund to pay the taxes.

*Reduction in Funds Available for Future Acquisitions.* All real estate properties that we recommend are subject to operating risks common to real estate in general, any or all of which may negatively impact a Fund. If a property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, a Fund could be required to expend funds with respect to that property for operating expenses. Properties are subject to increased utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses. While some properties that we recommend may require tenants to pay a portion of such expenses, some may not be negotiated on that basis, in which event the respective Fund may have to pay those costs. If a Fund is unable to lease properties on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, such Fund could be required to pay those costs.

*Inability to Obtain Adequate Financing.* We cannot be sure that a Fund will be able to obtain lines of credit or long-term permanent financings on satisfactory terms.

*Financing to Purchasers.* In some instances we may recommend that a Fund sell an investment by providing financing to purchasers. If such Fund provides financing to purchasers, the Fund will bear the risk that the purchaser may default, which could result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales, or their reinvestment in other assets, will be delayed until the promissory notes or other property such Fund may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

*Adverse consequences of failure to maintain REIT status.* We may recommend investments in REITs (including Fund II REIT). If a REIT in which a Fund invests were to fail to qualify as a REIT in any taxable year, the REIT would be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates, and distributions to stockholders, including the applicable Fund, would not be deductible by it in computing its taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders. Unless entitled to relief under certain provisions of the Internal Revenue Code, as amended, the disqualified REIT also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT.

*Cybersecurity Risks.* We, the Funds and our respective affiliates and service providers depend on information technology systems and, notwithstanding the diligence that we or our affiliates may perform on its or the Fund's (or any other clients) service providers, it may not be in a position to verify the risks or reliability of such information technology systems. We, the Funds and our respective affiliates and service providers are subject to risks associated with a breach in cybersecurity. "Cybersecurity" is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. We, our affiliates and our information and technology systems are 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. Although we have implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, we or an affiliate may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, a Fund's or any of our respective affiliates' 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 our or our affiliates' reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect its business and financial performance. Such damage or interruptions to information technology systems may cause losses to the Funds or individual investors by interfering with the operations of us and our affiliates (or their service providers). The Funds may also incur substantial costs as the result of a cybersecurity breach, including those associated with

forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose the Funds, us and our respective affiliates to civil, legal or regulatory liability as well as regulatory inquiry and/or action, and the Funds may be required to indemnify us and our affiliates against any losses incurred in connection therewith. Cybersecurity issues and risks are currently a major focus area of the SEC and other regulatory authorities.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS THAT ARE OR MAY BE ASSOCIATED WITH A FUND'S INVESTMENT STRATEGIES OR AN INVESTMENT IN THE FUND.**

### **Item 9: Disciplinary Information**

Not applicable.

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

### **RELYING ADVISERS**

As mentioned in Item 4 above, certain of our affiliates, including HIP Fund I Industrial Partners GP, L.P., HIP Fund I Investment Manager, LP, US Fund II General Partner, LLC, US Fund II Industrial Partners GP, LP, HE Management s.a r.l. and HWE Holdings GP, LLC (each, a “Relying Adviser” and, collectively, “Relying Advisers”), may from time to time perform and/or provide Investment Advisory Services with respect to a client. While we and each of the Relying Advisers are organized as separate legal entities, we collectively conduct a single advisory business. Accordingly, the Relying Advisers rely on our investment adviser registration instead of separately registering as investment advisers with the SEC under the Advisers Act. To rely on our registration, we have entered into investment management agreements with each Relying Adviser, pursuant to which we monitor, supervise, oversee and control any and all Investment Advisory Services provided by such Relying Adviser and any persons acting on its behalf with respect to the applicable client. Each Relying Adviser, its employees and persons acting on its behalf are “persons associated with” and “supervised persons” (as each term is defined in the Advisers Act) of TXRE Advisers, LLC with respect to all Investment Advisory Services provided thereby, the Investment Advisory Services of each Relying Adviser, its employees and persons acting on its behalf are subject to our supervision and control, any Investment Advisory Services of a Relying Adviser are subject to the Advisers Act and the rules and regulations thereunder, and the activities and books and records of each Relying Adviser are subject to inspection and examination by the SEC. Each Relying Adviser is subject to our compliance policies and procedures and, except as the context otherwise requires, any reference in this brochure to “we,” “us,” “our” includes TXRE Advisers, LLC and the Relying Advisers.

All Investment Advisory Services with respect to clients and any of its subsidiaries have been or will be delegated to, and shall be provided and/or performed by, us (and our Relying Advisers). Any Investment Advisory Services with respect to clients and their subsidiaries that are undertaken by any of our affiliates, agents, supervised persons, employees and persons acting on their behalf are subject to our supervision and control.

### **HDC ACTIVITIES**

Hillwood Development Company, LLC, our affiliate and parent company (“HDC”), and affiliated entities are engaged and may in the future engage in various real estate development activities, including industrial, commercial and residential. Industrial real estate activities (to the extent such activities are or may be related to the Funds, the SPVs or securities-related activity) generally are subject to our oversight as investments in the Fund(s). Commercial and residential real estate activities generally do not involve Investment Advisory Services and thus are separate and independent from our investment activities. We generally also share certain resources and personnel with other HDC business units. To the extent that such activities or matters do raise material conflicts of interest, we expect to address such conflicts in the manner described in *Item 11 - Advisory Committee; Conflicts of Interest* below and/or disclosure in the applicable offering documents.

### **AFFILIATED REAL ESTATE BROKER**

We are affiliated, and share certain principals and employees with, Hillwood Realty Services Corporation, a real estate broker. Although we intend to keep our business activities and operations separate and independent from the business activities and operations of Hillwood Realty Services Corporation, the activities of Hillwood Realty Services Corporation may present actual or potential conflicts of interest, including, but not limited to, the time conflicts presented thereby.

### **AFFILIATED BORROWING ARRANGEMENTS**

Certain of our affiliates have entered into and/or may in the future enter into master borrowing arrangements through which funds are borrowed from a third party lender in connection with a government sponsored lending program (“master borrowing arrangements”). In connection therewith, one or more of our affiliates have provided and/or may in the future provide loans to NB Project, Cannery Project and/or other clients with respect to real estate projects from the proceeds borrowed under such master borrowing arrangements (“affiliate loans”). The terms of such affiliate loans generally are the same as or substantially similar to those under the master borrowing arrangement, except that the affiliate loans generally have higher loan origination fees which generally are intended

to cover the estimated additional costs and expenses associated with such loans (although such origination fees could potentially exceed the applicable costs). Neither we, nor our affiliates otherwise receive any compensation with respect to or in connection with such affiliate loans.

#### **OTHER ACTIVITIES OF PRINCIPALS, OFFICERS AND AFFILIATES**

Certain of our officers, principals, management persons and other affiliated persons and entities hold or may hold direct and/or indirect personal investments in various entities, companies, investments and assets/properties, including public companies, private investment partnerships, limited liability companies, trust companies and family investment vehicles/offices, and serve or may serve on boards of directors, investment committees and advisory boards for certain companies or businesses (including publicly traded companies, trust companies and family investment vehicles or offices). We generally do not believe that these investments and positions raise material conflicts of interest with clients or otherwise result in relationships or arrangements by such persons with any related person that are material to our advisory business or our clients.

Certain of our affiliates and related persons (including limited partnerships, limited liability companies, family offices, family entities, trusts and other entities and investment vehicles) are engaged or may be engaged in non-securities related investment activities and/or other matters that do not involve Investment Advisory Services, including investments in real estate or other non-securities related investments (either directly or through wholly owned or controlled subsidiaries). In addition, certain of our affiliates manage, operate, sponsor and/or control various investment vehicles and other entities that are owned exclusively by our related persons and affiliates and do not otherwise have any third party investors. The activities of these investment vehicles generally are separate from our Investment Advisory Services and activities.

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

### **CODE OF ETHICS**

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our supervised persons. Our code of ethics is primarily designed to educate supervised persons about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to the Funds, encourage supervised persons to comply with applicable laws, prevent the misuse of material non-public information and the circulation of rumors and other forms of market abuse and address conflicts of interest that could arise from personal trading by our access persons. The code sets forth formal policies and procedures with respect to the personal securities trading activities of our access persons. Among other things, access persons generally are required to pre-clear certain public and private personal securities transactions, report all securities transactions on at least a quarterly basis and provide us with a summary of the securities holdings on at least an annual basis. Our code also addresses outside activities of certain supervised persons, conflicts of interest, policies and procedures concerning the prevention of insider trading, restrictions on the acceptance of gifts, the reporting of certain gifts and business entertainment items and the pre-clearance and reporting of political contributions. All supervised persons must annually confirm that they have read and understand our code of ethics and compliance manual, including the personal securities trading policy. A copy of our code of ethics will be made available to clients upon request.

### **CO-INVESTMENT OPPORTUNITIES**

The general partner of a Fund generally may cause the respective Fund to co-invest with other entities so long as such arrangements do not materially adversely alter the economic or control rights of the limited partners set forth in the respective partnership agreement. If a Fund provides the members of the general partner of the general partner of such Fund (the “Members”), or any of their affiliates, with the opportunity to co-invest with such Fund in the securities of, or provide equity financing to, any investment of such Fund, then such co-investment amount will be allocated among the Members and their respective affiliates, for their own account, *pro rata* in accordance with their capital commitments to such Fund; *provided, however*, that if one Member or its affiliate elects not to take or use any portion of its allocated co-investment amount, the other Member or its affiliate will have the right, but not the obligation, to pursue such portion. In the event that the total amount of the co-investment amount allocated to the Members under the terms of the partnership agreement of such Fund has not been taken or used by all or any of the Members, the Members generally may sell or syndicate to third parties such remaining amount, *pro rata* in accordance with their capital commitments to such Fund; *provided, however*, that if the Members agree, the entire remaining amount may be jointly sold or syndicated by the Members.

### **ADVISORY COMMITTEE; CONFLICTS OF INTEREST**

Each of the US Funds and the European Fund has established an advisory committee or advisory board (“Advisory Committee”) composed of various representatives of the investors in such funds. In addition to any other waiver, consent or approval rights of the Advisory Committee expressly set forth in the governing documents of such funds, the general partner of such fund (or the “alternative investment fund manager” with respect to the European Fund) generally is required to present to the Advisory Committee for its prior review and approval any transaction in which the general partner has a conflict of interest, and any matter that, with respect to the Advisers Act, would require the approval of the fund or the investors. If the Advisory Committee consents to or approves any such transaction or matter, the general partner may cause the fund to engage in such transaction without seeking any other approval of the investors.

We generally are required to consult with the Advisory Committee regarding key business decisions concerning a US Fund or the European Fund, including, without limitation, prospective acquisitions, dispositions, and financings of portfolio investments in excess of twenty percent (20%) of aggregate capital commitments or subscriptions.

Principal transactions are transactions (i) where an adviser, acting as principal for its own account, knowingly buys securities from, or sells securities to, a client and (ii) where an affiliate or controlling person of the adviser is acting in a principal capacity with clients of the adviser (*i.e.* where we or an affiliate cause a client to engage in a trade with one of our affiliates). Section 206(3) generally prohibits an investment adviser from engaging in a principal transaction unless such adviser (i) makes written disclosure to the client of the capacity in which it is acting and (ii) obtains the client’s consent to the transaction. We generally will not engage in a principal transaction with respect to any of the Funds unless we obtain the prior approval of the applicable Advisory Committee (in accordance with

the provisions set forth in the applicable governing document or offering memorandum) or the client.

#### **ALLOCATION OF INVESTMENT OPPORTUNITIES**

We act as investment adviser with respect to various Funds (and may in the future act as investment adviser with respect to one or more additional pooled investment vehicles or separately managed accounts) that have or may have overlapping investment objectives and may present potential for conflicts of interest with respect to various clients. Therefore, there may be circumstances in which investment opportunities that are consistent with a client's investment objectives overlap with those of another client or an affiliate thereof. As an adviser registered under the Advisers Act, we generally are required to resolve conflicts of interest on a fair and equitable basis under the circumstances. In allocating investment opportunities, we generally will take into account various factors including (but not limited to) the terms of the applicable governing documents, which business area or investment vehicle sourced the opportunity, the size of the investment opportunity, the various investment objectives of the different clients, the nature of the other potential acquirers, target rates of return, diversification considerations, risk profile, available capital and expected holding periods. The methodology for determining whether to allocate an investment either to a client, or one or more other clients, and the factors taken into account in determining such allocation, will likely vary over time and on a case-by-case basis. Any such allocation or joint participation involving a client will be in accordance with the applicable governing documents and applicable law.

Notwithstanding the foregoing, until the earlier to occur of (i) the expiration or termination of the investment period of Fund II, or (ii) the time that eighty percent (80%) of the aggregate capital commitments have been committed to a "mandate investment" (as such term is defined in the partnership agreement of Fund II), we are required to make available to Fund II (and its subsidiaries) all North American industrial real estate investment opportunities (including opportunities sourced by, or available to, us or our affiliates) that we reasonably believe meet Fund II's "investment parameters" (as defined in the Fund II partnership agreement) (other than certain "Hillwood Permitted Activities") and that comply with the "investment restrictions" and the "leverage restrictions" (as such terms are defined in the Fund II partnership agreement) (a "***Qualifying Opportunity***"). Prior to the expiration or termination of the investment period of Fund II, neither we nor any of our affiliates will have the right to acquire, invest in or otherwise obtain an interest (direct or indirect) in any Qualifying Opportunity outside of Fund II, unless approved by supermajority consent of the LP advisory board of Fund II.

None of the general partner of the European Fund, us or any of our or their affiliates will form, organize or start a new investment fund focused on investments in logistics-related assets in Europe until the earlier of: (i) the expiration of investment period of the European Fund, and (ii) 80% of the aggregate capital commitments have committed to "mandate investments" (as such term is defined in the PPM of the European Fund).



## Item 12: Brokerage Practices

### **BROKERAGE POLICIES**

We generally focus on making private investments in real estate and real estate related assets. Accordingly, we do not generally use, select or otherwise recommend broker-dealers or other counterparties in connection with the investment activities of our clients. In the event that we are called upon to select and/or recommend broker-dealers or other counterparties to clients in the future, we will implement and adopt policies and procedures reasonably designed to ensure that such brokers are selected in a fair and equitable manner and will promptly amend our brochure to disclose such policies and procedures.

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

### **REVIEWS OF ACCOUNTS**

Certain of our executive officers generally conduct routine reviews of the Funds and their investments on at least a monthly basis (or more frequently in certain circumstances). With respect to accounting matters, the general partners or managing member of the Funds have each engaged an independent public accounting firm to conduct annual audits of such Funds.

As noted in Item 8 above, the general partner of each of the US Funds and the European Fund has established an “investment committee” and an “operating committee” with respect to such Fund. In general, the unanimous consent of the “investment committee” is required with respect to the acquisition and disposition of any portfolio investments and the consent of a majority of the “operating committee” is required with respect to various other matters relating to the US Funds and the European Fund.

In monitoring the performance of the Funds’ investments, we perform various levels of review. Among other items, we may consider: opportunities in the real estate market, inquiries regarding a specific asset, changes in an asset’s operating environment, changes in the debt market and changes in the customer of a real estate asset.

### **REPORTS**

We generally provide investors in the US Funds and the European Fund with quarterly unaudited financial statements (including a balance sheet, income statement and statement operations/capital), quarterly reports of business, operations and activities (including a summary of acquisitions and dispositions of mandate investments during the prior quarter and a description of certain transactions), and annual audited financial statements (including a balance sheet, income statement, statement of partners’ capital, summary descriptions of acquisitions and dispositions during the applicable year and a statement of distributions made to each partner during the last fiscal quarter of such year). Within forty five days after the end of each fiscal year, the general partner of each Fund delivers, or causes the Fund to deliver, to the investors notice of the investment value of each mandate investment as at the end of each fiscal year. After the close of each taxable year, we provide investors with any information relating to the US Funds that may be reasonably necessary to enable investors to prepare their U.S. federal income tax returns. If requested by an investor, the US Funds and the European Fund generally will use commercially reasonable efforts to deliver to such investor such other information reasonably available to us as the investor may require to comply with reporting requirements imposed by law. All reports to investors generally are written. In response to questions and requests and in connection with due diligence meetings and other communications, we may provide additional information to certain investors that is not distributed to other investors. Such investors may make investment decisions with respect to their investments in the funds based upon such information.

With respect to EU Project, NB Project, Fund II REIT and Cannery Project, we generally provide (or will provide) annual audited financial statements to investors and such other reports, notices and information set forth in the applicable governing documents. In general, all such reports are written.

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

### **THIRD-PARTY COMPENSATION**

Except as otherwise disclosed in this brochure, we currently do not receive any economic benefit from a non-client for providing investment advice or other advisory services with respect to the Funds.

### **REFERRALS**

We may enter into placement agent agreements or arrangements with solicitors or placement agents who refer investors in the Funds or other entities to us. For their referral services, such persons may receive compensation from us (or our affiliates) which may be (i) a percentage of the management fees and/or performance-based compensation, (ii) allocation paid to us or our affiliates by such investors and clients, (iii) a percentage of an investor's commitment, or (iv) a flat fee. Investors generally will not be charged any higher or additional fee as a result of such agreements or arrangements. In every instance, all arrangements and payments of referral fees will be disclosed to applicable investors. Information relating to any placement agents or solicitors engaged with respect to a Fund is set forth in Section 7.B of Schedule D of Part 1 of our Form ADV.

### **Item 15: Custody**

We may be deemed to have custody of client cash and securities for purposes of Rule 206(4)-2 under the Advisers Act. Accordingly, the client cash and securities are maintained at one or more qualified custodians, to the extent required by Rule 206(4)-2. With respect to the Funds and SPVs, the respective general partner generally is responsible for selecting qualified custodians, and it may change custodians at any time and from time to time without the consent of, or notice to, investors. The names of custodians engaged with respect to a Fund are set forth in Section 7.B of Schedule D of Part 1 of our Form ADV.

In general and to the extent required by law, an independent public auditor conducts annual audits of each of the Funds and SPVs, and audited financial statements are provided to investors on an annual basis. Annual audited financial statements generally are provided by the general partner to investors in the Funds and the SPVs within 120 days after the end of each fiscal year (or as otherwise set forth in the applicable governing documents or required by applicable law).

## **Item 16: Investment Discretion**

### **DISCRETIONARY AUTHORITY**

We and our Relying Advisers generally have discretionary power and authority over the types of investments to be bought or sold, as well as the amount to be bought or sold, on behalf of our clients, subject to the terms, limitations and restrictions set forth in the applicable governing documents (including the investment committees and the operating committees with respect to each applicable fund, as described in Item 8). We also have authority to determine the counterparty (if any) to be used for Fund transactions and the negotiation of commission rates or other consideration to be paid by the Funds to such persons. Notwithstanding the foregoing, neither we nor any of our Relying Advisers may have discretionary power or authority to select investments on behalf of an SPV, subject to the terms of the governing documents.

### **LIMITED POWER OF ATTORNEY**

Each investor in the Funds generally grants the general partner or managing member of a Fund a limited power of attorney to enable the general partner to take various ministerial actions with respect to the Fund on its behalf. The general partner or managing member of each fund has the authority to act on behalf of the Funds in connection with the acquisition and disposition of investments.

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

We do not exercise or have the authorization to exercise proxy voting authorization with respect to our clients. Rule 206(4)-6 under the Advisers Act requires every investment adviser who exercises voting authority with respect to client securities to adopt and implement written policies and procedures, reasonably designed to ensure that the adviser votes proxies in the best interest of its clients. Rule 206(4)-6 further requires an adviser to provide a concise summary of its proxy voting process and offer to provide copies of the complete proxy voting policy and procedures to clients upon request. Lastly, Rule 206(4)-6 requires that each adviser disclose to clients how they may obtain information on how the adviser voted their proxies.

We currently do not advise our clients with respect to any publicly traded securities. As such, we do not currently exercise voting authority on behalf of clients. In the event that we (a) have proxy voting authority with respect to our clients and (b) are called upon to exercise such proxy voting authority, our policy will be to exercise reasonable care to ensure that proxies are voted in the best interests of our clients and we will adopt procedures reasonably designed to ensure compliance with such policy.

## Item 18: Financial Information

Not applicable.