

# JCAP ADVISORS, LLC

## Form ADV Part 2A Firm Brochure

March 31, 2015

**This brochure provides information about the qualifications and business practices of JCap Advisors, LLC (“JCap” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (305) 381-9696 or [greg@jernigancapital.com](mailto:greg@jernigancapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

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

*Registration with the SEC as an investment adviser does not imply that JCap or any principals or employees of JCap possess a particular level of skill or training in the investment advisory or any other business.*

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**Item 2 - Material Changes**

Not Applicable.

**Item 3 - Table of Contents**

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#### **Item 4 - Advisory Business**

JCap is a Florida limited liability company that was formed in June 2013 and commenced operations in October 2015. The direct principal owner of JCap is Dean Jernigan. The remaining owners are Mr. Jernigan's family members and trusts for their benefit.

JCap provides the advisory services described below to Jernigan Capital, Inc.(together with its subsidiaries, "Jernigan Capital"), a Maryland corporation that was formed on October 1, 2014. Jernigan Capital is a public specialty finance company that has elected to be classified as a real estate investment trust for federal income tax purposes. Jernigan Capital's common stock is listed on the New York Stock Exchange, or "NYSE", under the symbol "JCAP."

JCap's investment advisory business is principally focused on sourcing, evaluating, underwriting and servicing loans and other investments relating to self-storage facilities. Its advice is primarily limited to real estate-related investments, and JCap tailors its advisory services to the specific investment objectives of and restrictions of Jernigan Capital.

JCap does not participate in any wrap fee programs.

JCap manages Jernigan Capital's assets on a discretionary basis in accordance with the terms and conditions of its Jernigan Capital's governing documents (the "Governing Documents"), which may be found either on the Jernigan Capital's corporate website or that were filed as exhibits to Jernigan Capital's Registration Statement on Form S-11 filed with the Securities and Exchange Commission (the "SEC"), including the management agreement with JCap. JCap manages the business of Jernigan Capital in accordance with investment guidelines that are approved by the independent directors of Jernigan Capital. As of March 31, 2015, JCap had no assets under management ("AUM"). Upon completion of Jernigan Capital's initial public offering in April 2015, it will have AUM of approximately \$100 million. AUM represents the net asset value of Jernigan Capital, the drawn and undrawn debt (at the company or subsidiary-level including amounts subject to restrictions) and uncalled committed capital, if any.

#### **Item 5 - Fees and Compensation**

##### ***Compensation and Fee Schedules***

Investors should review the Governing Documents of Jernigan Capital in conjunction with this brochure for more complete information on the fees and compensation payable with respect thereto. The below fees and compensation information relates solely to fees paid by Jernigan Capital to JCap as Jernigan Capital is the only client whose account is managed by JCap. Fees are billed to the client in arrears.

##### **Jernigan Capital**

*Base Management Fee.* Jernigan Capital pays JCap a base management fee in an amount equal to 0.375% of Jernigan Capital's stockholders' equity (a 1.5% annual rate) calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, Jernigan Capital's stockholder's equity means: (a) the sum of (i) the net proceeds from all issuances of its

equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) Jernigan Capital's retained earnings at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods); less (b) any amount that Jernigan Capital pays to repurchase its common stock since inception. It also excludes (x) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in Jernigan Capital's financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and (y) one-time events pursuant to changes in GAAP (such as a cumulative change to Jernigan Capital's operating results as a result of a codification change pursuant to GAAP), and certain non-cash items not otherwise described above (such as depreciation and amortization), in each case after discussions between JCap and Jernigan Capital's independent directors and approval by a majority of its independent directors. As a result, Jernigan Capital's stockholders' equity, for purposes of calculating the base management fee, could be greater or less than the amount of stockholders' equity shown on its financial statements. The base management fee is payable quarterly in arrears in cash. The base management fee is payable regardless of the performance of Jernigan Capital's portfolio.

The base management fee shall be calculated within 30 days after the end of each fiscal quarter and such calculation shall be promptly delivered to Jernigan Capital. Jernigan Capital is obligated to pay the base management fee in cash within five business days after delivery of the written statement of JCap setting forth the computation of the management fee for such quarter.

*Incentive Fee.* JCap will be entitled to an incentive fee with respect to each fiscal quarter (or part thereof that the management agreement is in effect) in arrears in cash. The incentive fee will be an amount, not less than zero, determined pursuant to the following formula:

$$IF = .20 \text{ times } (A \text{ minus } (B \text{ times } .08)) \text{ minus } C$$

In the foregoing formula:

- A equals Jernigan Capital's Core Earnings (as defined below) for the previous 12-month period;
- B equals (i) the weighted average of the issue price per share of Jernigan Capital's common stock of all of its public offerings of common stock, multiplied by (ii) the weighted average number of all shares of common stock outstanding (including (i) any restricted stock units and any restricted shares of its common stock in the previous 12-month period and (ii) shares of common stock issuable upon conversion of outstanding OP Units); and
- C equals the sum of any incentive fees earned by JCap with respect to the first three fiscal quarters of such previous 12-month period.

Notwithstanding application of the incentive fee formula, no incentive fee shall be paid with respect to any fiscal quarter unless cumulative annual stockholder total return for the four most recently completed fiscal quarters is greater than 8%. Any computed incentive fee earned but not

paid because of the foregoing hurdle will accrue until such 8% cumulative annual stockholder total return is achieved. The total return will be calculated by adding stock price appreciation (based on the volume-weighted average of the closing price of Jernigan Capital's common stock on the NYSE (or other applicable trading market) for the last ten consecutive trading days of the applicable computation period minus the volume-weighted average of the closing market price of its common stock for the last ten consecutive trading days of the period immediately preceding the applicable computation period) plus dividends per share paid during such computation period, divided by the volume-weighted average of the closing market price of our common stock for the last ten consecutive trading days of the period immediately preceding the applicable computation period.

For purposes of computing the Incentive Fee, "Core Earnings" is defined as net income (loss) determined under GAAP plus non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that Jernigan Capital forecloses on any facilities underlying its target investments), any unrealized losses or other non-cash expense items reflected in GAAP net income (loss), less any unrealized gains reflected in GAAP net income. The amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between JCap and Jernigan Capital's independent directors and after approval by a majority of Jernigan Capital's independent directors.

### ***Deduction of Fees; Timing of Payments; Termination***

Advisory fees for Jernigan Capital are payable in arrears, generally on a quarterly basis. Since such advisory fees are payable in arrears, they are not paid until after services have been rendered. Please refer to the Governing Documents of Jernigan Capital for more complete information on the timing of advisory fee payments.

### ***Other Fees and Expenses***

Jernigan Capital will reimburse JCap for certain expenses, including (but not limited to):

- expenses in connection with the issuance and transaction costs incident to the origination, acquisition, disposition and financing of Jernigan Capital's investments;
- costs of legal, financial, tax, accounting, servicing, due diligence consulting, auditing and other similar services rendered for Jernigan Capital by providers retained by JCap;
- the compensation expense for JCap's employees other than its chief executive officer and chief financial officer;
- costs associated with the establishment and maintenance of any of Jernigan Capital's secured funding facilities, other financing arrangements, or other indebtedness of Jernigan Capital (including commitment fees, accounting fees, legal fees, closing and other similar costs) or any of its securities offerings;

- expenses connected with communications to holders of Jernigan Capital's securities and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including all costs of preparing and filing required reports with the SEC, the costs payable by Jernigan Capital to any transfer agent and registrar in connection with the listing and/or trading of its securities on any exchange, the fees payable by Jernigan Capital to any such exchange in connection with its listing, costs of preparing, printing and mailing its annual report to its stockholders and proxy materials with respect to any meeting of its stockholders;
- costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for Jernigan Capital;
- expenses incurred by JCap's managers, officers, personnel and agents for travel on Jernigan Capital's behalf and other out-of-pocket expenses incurred by our managers, officers, personnel and agents in connection with the purchase, financing, refinancing, sale or other disposition of an investment or establishment and maintenance of any of Jernigan Capital's securitizations or any of our securities offerings;
- costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses;
- the costs of maintaining Jernigan Capital's compliance with all federal, state and local rules and regulations or any other regulatory agency;
- all insurance costs incurred in connection with the operation of JCap's business except for the costs attributable to the insurance JCap elects to carry for ourselves or its personnel;
- costs and expenses incurred in contracting with third parties for or on Jernigan Capital's behalf;
- all other costs and expenses relating to Jernigan Capital's business and investment operations, including the costs and expenses of originating, acquiring, owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;
- expenses (including rent, telephone, printing, mailing, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses) relating to any office(s) or office properties, including disaster backup recovery sites and properties, incurred by JCap;
- expenses connected with payments of interest, dividends or distributions in cash or any other form authorized or caused to be made by the board of directors to or on account of

holders of our securities, including in connection with any dividend reinvestment plan; and

- all other expenses actually incurred by Jernigan Capital, which are reasonably necessary for the performance by us of our duties and functions under the management agreement with Jernigan Capital.

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

### ***Performance-Based Fees***

The incentive fees payable to JCap described in Item 5 above may create incentives for JCap to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Please refer to the Governing Documents of Jernigan Capital for more complete information on the “incentive fee” arrangements it is subject to.

## **Item 7 - Types of Clients**

### ***Types of Clients***

JCap provides investment advisory services exclusively to Jernigan Capital. Investors in Jernigan Capital may include individuals, corporations (including insurance companies), endowments, foundations, trusts, estates, high-net worth individuals and pension and profit sharing plans.

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

### ***Methods of Analysis and Investment Strategies***

JCap’s overarching investment strategy is implemented through a highly disciplined underwriting, investment and portfolio management process. The specific methods of analysis and investment strategies utilized by JCap for Jernigan Capital are described below. For additional details relating to the methods of analysis and investment strategies employed by Jernigan Capital, please refer to the Governing Documents of Jernigan Capital.

JCap invests primarily in privately negotiated debt, equity and equity-related investments in the self-storage industry.

JCap employs a rigorous, credit-oriented evaluation towards determining the risk/return profile of the investment opportunity and the appropriate pricing and structure for the prospective investment, with specific reference to the strength of the transaction sponsor(s), the underlying real estate and the structure of the investment. Detailed financial modeling and analysis is conducted to assess the cash flow and debt service coverage characteristics of the properties as well as interest rate and prepayment analysis.

Focus is given to current cash flows and potential risks to cash flow such as those associated with tenant credit quality, lease maturities, reversion to market level rental rates, vacancy and expenses. Cash flow analysis and market comparables are used as follows:

- to determine the current value of the underlying collateral
- to assess the capacity to repay or refinance upon maturity
- to understand sensitivities to various potential changes in asset performance, market fundamentals and real estate capital markets.

JCap performs extensive property, sponsor and market-level due diligence, including:

- a competitive analysis
- corporate profile and credit reviews for major tenants
- due diligence on the borrower and its sponsor(s), including meeting with the borrower's and sponsor's respective management teams
- checking management's backgrounds and references
- analyzing the governance structure of the borrower
- investigation into legal risks
- market and industry research, including an analysis of demographics, key economic fundamentals such as employment and population growth, and comparable transactions
- review of the borrower's business plan with respect to the property.

JCap's underwriting focuses on understanding the broader capital structure of the transaction and ensuring that it has the appropriate controls and rights with respect to its prospective investment.

If considering the acquisition of Credit Mortgage Backed Securities ("CMBS"), JCap would undertake an extensive analysis of the underlying loans and careful review of the security terms and conditions. JCap currently does not intend to invest in CMBS on behalf of JC.

### ***Material Risks***

The task of identifying investment opportunities and managing such investments can be difficult. There can be no assurance that JCap on behalf of Jernigan Capital will be able to make and realize any particular investment or generate returns. The following material risks relating to JCap's investment strategies are set forth below. Please see the Governing Documents of



Jernigan Capital for more complete information on investment strategies employed on behalf of Jernigan Capital and the corresponding risks associated with such investment strategies.

**General Real Estate Considerations.** Real estate historically has experienced significant fluctuations and cycles in value that may result in reductions in the value of real estate-related investments. The marketability and value of the investments undertaken by JCap on behalf of Jernigan Capital depends on many factors beyond the control of JCap. The ultimate performance of such investments is subject to the varying degrees of risk generally incident to the financing, ownership, market and operation of the underlying real property. The ultimate value of Jernigan Capital's investment in the underlying real property depends upon the real property owner's ability to operate the real property in a manner sufficient to maintain or increase revenues in excess of operating expenses and debt service or, in the case of all properties, the ability of any lessees to make rental payments.

Real estate investments are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks;
- adverse changes in national and local economic and market conditions, and changes in neighborhood characteristics;
- changes in governmental laws and regulations, fiscal policies (and in the availability, cost and terms of mortgage funds) and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- the potential for uninsured or under-insured property losses;
- the financial condition of tenants, buyers and sellers of properties; and
- competition from other properties offering the same or similar services.

The risks associated with Jernigan Capital's investments will be more severe during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. Declining real estate values would likely reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on loans if the value of real estate declines. Further, declining real estate values significantly increase the likelihood that Jernigan Capital will incur losses on loans in the event of default because the value of the collateral may be insufficient to cover the remaining obligation due on the loan. Any sustained period of increased payment

delinquencies, foreclosures or losses could adversely affect JCap's ability to invest in, sell and securitize loans on behalf of Jernigan Capital.

The factors above could materially and adversely affect the results of the operations, financial condition, liquidity and business of Jernigan Capital and its ability to pay returns.

**Competition for Real Estate Investments.** JCap on behalf of Jernigan Capital operates in a competitive market for investment opportunities and competition may limit its ability to originate or acquire desirable investments in Jernigan Capital's target investments and could also affect the pricing of these investments, thereby reducing returns to Jernigan Capital, and may decrease the available supply of investment opportunities deemed suitable Jernigan Capital. A number of entities compete with Jernigan Capital to make the types of investments that it seeks to make. The profitability of Jernigan Capital depends, in large part, on JCap's ability to originate or acquire target investments on attractive terms. In originating or acquiring target investments, Jernigan Capital will compete with a variety of institutional investors, including other real estate investment trusts, specialty finance companies, public and private funds, commercial and investment banks, commercial finance and insurance companies and other financial institutions.

Many competitors are significantly larger than and have considerably greater financial, technical, marketing and other resources. Some competitors may have a lower cost of funds and access to funding sources that are not available to Jernigan Capital such as the U.S. Government. Many competitors are not subject to the operating constraints associated with maintenance of an exemption from the Investment Company Act. In addition, some of Jernigan Capital's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, deploy more aggressive pricing and establish more relationships than JCap. Furthermore, competition for originations of and investments in Jernigan Capital's target investments may lead to the price of such assets increasing, which may further limit such accounts' ability to generate desired returns. Also, as a result of this competition, desirable investments in target investments may be limited in the future and Jernigan Capital may not be able to take advantage of attractive investment opportunities from time to time. No assurance can be provided that investments that are consistent with Jernigan Capital's investment objectives will be identified and made.

**Investments in Non-Conforming and Non-Investment Grade rated Loans or Securities.**

Many of Jernigan Capital's investments will not conform to conventional loan standards applied by traditional lenders and either will not be rated or will be rated as non-investment grade by the rating agencies. The non-investment grade ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the facilities underlying the loans, the borrowers' credit history, the underlying facilities' cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment grade rated assets. Any loss Jernigan Capital incurs may be significant and may reduce distributions to Jernigan Capital's stockholders and adversely affect the market value of its common stock. There are no limits on the percentage of unrated or non-investment grade rated assets JCap may direct Jernigan Capital to hold in its investment portfolio.

**Risks Associated with Junior Mortgage Loans.** After an initial ramp-up period, JCap expects that Jernigan Capital's assets will consist of Junior Mortgage Loans and other similar higher yielding loans. A Junior Mortgage Loan is subordinated to a First Mortgage Loan secured by the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for Junior Mortgage Loan holders after payment to the First Mortgage Loan holders. Significant losses related to Jernigan Capital's Junior Mortgage Loans would result in operating losses for Jernigan Capital and may limit its ability to make distributions to stockholders.

**Risks Associated with Mezzanine Loans.** JCap may direct Jernigan Capital to originate or acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, Jernigan Capital may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy Jernigan Capital's mezzanine loan. If a borrower defaults on Jernigan Capital's mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, Jernigan Capital may not recover some or all of its initial investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

**Risks Associated with Investments in Illiquid Instruments.** The illiquidity of investments JCap may make for Jernigan Capital may make it difficult for Jernigan Capital to sell such investments if the need or desire arises. Certain target investments such as Junior Mortgage Loans, mezzanine and bridge loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower's default. In addition, many of the loans and securities will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. As a result, many investments made by JCap on behalf of Jernigan Capital will be illiquid, and if Jernigan Capital is required to liquidate all or a portion of its portfolio quickly, such accounts may realize significantly less than the value at which it had previously recorded investments.

**Risks Related to the Self-Storage Industry.** Jernigan Capital's investment portfolio will consist primarily of loans on self-storage facilities, which will subject it to risks inherent in investments for a single industry. A decrease in the demand for self-storage units would likely have a greater adverse effect on Jernigan Capital's revenues than if we owned a more diversified investment portfolio. Demand for self-storage units has been and could be adversely affected by weakness in the national, regional and local economies and changes in supply of or demand for similar or competing self-storage facilities in an area. To the extent that any of these conditions occur, they are likely to have a negative impact on the value of Jernigan Capital's investments, which could cause a decrease in its revenue. JCap on behalf of Jernigan Capital does not expect to invest in

other real estate or businesses to hedge against the risk that industry trends might decrease the profitability of Jernigan Capital's self-storage-related investments.

**Valuation Risk.** Jernigan Capital holds portfolio investments in the form of investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Currently, the only financial instruments recorded at fair value on a recurring basis in the consolidated financial statements for Jernigan Capital are cash and cash equivalents. Jernigan Capital has not elected the fair value option for the remaining financial instruments, including loans held for investment and secured funding agreements. Such financial instruments are carried at cost. For loans held for investment that are evaluated for impairment at least quarterly, Jernigan Capital estimates the fair value of the instrument, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain assets may fluctuate over short periods of time and determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Additionally, returns for a given period could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that Jernigan Capital ultimately realizes upon their disposal. The valuation process is particularly challenging as market events and lack of investment activity have made valuations of certain assets more difficult, unpredictable and volatile.

**Lack of Operating Control of Underlying Investments.** The day-to-day operations of the properties underlying the debt or other investments in which Jernigan Capital invests are the responsibility of the owners and developers of such properties. Although JCap on Jernigan Capital's behalf is responsible for monitoring the performance of each investment and invests in debt or other investments with underlying real estate properties that are operated by strong management, there can be no assurance that the owners and developers will be able to operate the underlying companies or properties in accordance with their business plans or the expectations of JCap on behalf of Jernigan Capital.

**Risks Related to a Decline in Fair Value of Assets.** A decline in the fair market value of Jernigan Capital's assets may require it to recognize an "other-than temporary" impairment against such assets under GAAP if Jernigan Capital were to determine that, with respect to any assets in unrealized loss positions, it does not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, Jernigan Capital would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If Jernigan Capital experiences a decline in the fair value of its assets, its results of operations, financial condition and its ability to make distributions to stockholders could be materially and adversely affected.

**Risks Associated with Senior CRE Loans.** Senior commercial real estate loans made by Jernigan Capital will be secured by commercial property and will be subject to risks of

delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by Jernigan Capital, it will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal and accrued interest and costs of collection of the mortgage loan, which could have a material adverse effect on the Jernigan Capital's cash flow from operations and limit amounts available for distribution to Jernigan Capital's investors. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on Jernigan Capital's anticipated return on the foreclosed mortgage loan.

**Risks Associated with Loans on Properties in Transition.** JCap on behalf of Jernigan Capital may originate transitional loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition, construction or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an asset that has not been stabilized or has been under-managed and is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset,

the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and Jernigan Capital will bear the risk that it may not recover some or all of its investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower's inability to obtain permanent financing to repay the transitional loan. Transitional loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under transitional loans that may be held by Jernigan Capital, it will bear the risk of loss to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest and costs of collection of the transitional loan.

Further, the construction, renovation, refurbishment or expansion by a borrower with respect to a property in transition mortgaged by a short term senior loan involves risks of cost overruns and non-completion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such construction is not completed in a timely manner, or if it costs more than budgeted, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on Jernigan Capital's loan investment, which could result in significant losses.

**Interest Rate Changes May Adversely Affect Value.** The market value of Jernigan Capital's investments may be affected by changes in interest rates. In general, the market value of a debt investment changes in inverse relation to an interest rate change where a debt investment has a fixed interest rate or only limited interest rate adjustments. Accordingly, in a period of declining interest rates, debt investments without adequate call protection may benefit less than other fixed income securities due to accelerated prepayments. For example, a property securing a commercial real estate collateralized debt obligation may bear interest at a fixed rate while the commercial real estate collateralized debt obligation may bear interest at a floating rate, which can lead to a floating/fixed rate or basis mismatch. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability of such property to generate positive cash flow and make payments on the commercial real estate collateralized debt obligation. Interest rate changes may also affect Jernigan Capital's return on new investments. Increases in the interest rates on debt incurred by Jernigan Capital in originating or acquiring investments may not be reflected in increased rates of return on the related investments, adversely affecting Jernigan Capital's return on those investments. Accordingly, interest rate changes may adversely affect the total return on a Jernigan Capital's portfolio.

**Hedging Policies/Risks.** JCap on behalf of Jernigan Capital may employ hedging techniques designed to protect it against adverse movements in interest rates and other risks. While such transactions may reduce certain risks, the transactions themselves may entail certain other risks. Thus, while Jernigan Capital may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates or other factors may result in a poorer overall performance

for Jernigan Capital than if it had not entered into such hedging transactions. If the hedging arrangements are terminated at any time in accordance with their terms, whether as a result of an event of default thereunder or otherwise, Jernigan Capital may be liable to make a payment to or receive a payment from the hedging provider in connection with such termination reflecting the market value of the transactions comprising such hedging arrangements (or, in certain circumstances, the loss or gain, as applicable, of the party making the relevant determination). If Jernigan Capital is required to make such a payment, it may be required to liquidate investments to fund any such payment.

**Leverage.** Jernigan Capital's return on investment is dependent upon the ability to use leverage. Jernigan Capital's ability to obtain the leverage necessary on attractive terms depends upon many factors including market conditions and Jernigan Capital's performance. The failure to obtain leverage at the contemplated advance rates, pricing and other terms could have a material adverse effect on Jernigan Capital. Leverage creates an opportunity for increased returns, but at the same time creates risks. There can be no assurance that Jernigan Capital's use of leverage will prove to be beneficial. Moreover, there can be no assurance that Jernigan Capital will be able to meet its debt service obligations and, to the extent that it cannot, Jernigan Capital risks the loss of some or all of their assets or a financial loss if it is required to liquidate assets at a commercially inopportune time. In addition, the debt may be recourse for Jernigan Capital so an impairment or potential impairment of an investment may create a risk of loss of some or all of their assets.

**Controlling Person Liability.** If JCap on behalf of Jernigan Capital is required to foreclose or exercise other remedies on its security to protect its investment, Jernigan Capital may have controlling interests in some of its investments in real estate companies. Other circumstances, such as the exercise of warrants or other interests acquired as part of an investment, could cause Jernigan Capital to hold such controlling interests. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, Jernigan Capital might suffer a significant loss.

**Inability to Re-Sell or Re-Lease Properties.** To the extent Jernigan Capital owns real estate or forecloses on properties to which it has extended mortgage loan, there is no assurance that Jernigan Capital can sell that property in a timely manner to recoup some or all of its investment. JCap cannot predict whether it would be able to sell any property for the price or on the terms they set, or whether any price or other terms offered by a prospective purchaser would be acceptable to Jernigan Capital. JCap cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Jernigan Capital may not be able to sell a property "as is," in other words, it may be required to expend funds to correct defects, such as defects related to the environment, health or safety or maintenance or repair. Jernigan Capital may also be required to make improvements before a property can be sold. There is no assurance that Jernigan Capital will have funds available to correct defects or make improvements. Furthermore, the expenditure of funds to correct defects or make improvements may adversely affect the funds available for investment by Jernigan Capital and cash available for distribution to its stockholders.

**Risks Associated with Environmental Liabilities Arising from Foreclosed or other Properties.** To the extent Jernigan Capital owns real estate or foreclose on properties with respect to which it has extended mortgage loans, Jernigan Capital may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying Jernigan Capital's debt investments becomes liable for removal costs, the ability of the owner to make payments to Jernigan Capital may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by Jernigan Capital. The presence of hazardous substances on a property may adversely affect Jernigan Capital's ability to sell foreclosed or other property and Jernigan Capital may incur substantial remediation costs.

#### **Item 9 – Disciplining Information**

Neither JCap nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to a Jernigan Capital's evaluation of our business or the integrity of our management.

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

##### ***Registered Broker-Dealers***

N/A.

##### ***Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors***

Neither JCap nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

##### ***Relationships with Related Persons***

N/A

##### ***Selection or Recommendation of Other Advisers***

JCap does not recommend or select other third-party investment advisers for its client. JCap does not have business relationships with other advisers that create a material conflict of interest.



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

### ***Statement of Business Ethics and Code of Ethics***

Jernigan Capital has adopted an Ethics Policy (the “Code”) that applies to JCap and sets forth standards of business and fiduciary conduct that JCap requires of Covered Persons. The Code is reasonably designed to minimize actual or potential conflicts of interest between Covered Persons, JCap, and its client and prevent violation of federal securities laws. The Code includes, among other things, a) policies and procedures regarding personal securities transactions; b) disclosure and reporting obligations of outside business activities, personal securities transactions and holdings; and c) obligations for Covered Persons to report any violations of the Code to the Chief Compliance Officer (“CCO”). Jernigan Capital or any prospective client may obtain a copy of the Code upon request.

## **Item 12 - Brokerage Practices**

Subject to the investment objectives, policies and restrictions of Jernigan Capital as set forth in the Governing Documents thereof, JCap has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of Jernigan Capital, including the selection of, and commissions paid to, brokers.

JCap typically originates and engages in privately negotiated transactions directly with borrowers and does not utilize broker-dealers to effect portfolio investments. However, in certain transactions, including but not limited to investments in CMBS and CRE CDO bonds, to the extent Jernigan Capital invests in these securities in the future, JCap may effect transactions through a broker-dealer. In selecting broker-dealers to effect transactions, JCap seeks to obtain best execution by considering various factors including, but not limited to, price (including the applicable brokerage commission or dealer spread), size of order, timeliness and certainty of execution, liquidity of the securities traded, expertise as it relates to specific securities, counterparty risk and business reputation. While JCap generally seeks reasonably competitive trade execution costs, Jernigan Capital will not necessarily pay the lowest spread or commission available.

### ***Research and Other Soft Dollar Benefits***

Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) provides a safe harbor that permits advisers, when selecting brokers to execute transactions for Jernigan Capital, to take into account certain research products and services provided to the adviser by brokers. JCap does not engage in soft dollar arrangements.

JCap will not consider, in selecting or recommending broker-dealers, whether it will receive client referrals.

JCap does not permit clients to direct brokerage.

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

JCap monitors all portfolio investments on behalf of Jernigan Capital on an ongoing basis. Investments are reviewed in the context of Jernigan Capital's (i) adherence to the investment objectives and guidelines as set forth in its Governing Documents and (ii) investment performance. Subsequent to an investment, each position is monitored on an ongoing basis by at least one investment professional. The monitoring may include ongoing dialogue with a borrower's management, property management personnel, leasing agents, financing sources, rating agencies, competitors, and other industry sources. In addition, a client's investments as well as a client's overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by senior investment professionals, including portfolio managers. On at least an annual basis, JCap discusses with Jernigan Capital's Board of Directors the investment guidelines JCap is required to follow. Any changes to the investment guidelines must be approved by a majority of the independent directors.

#### ***Reports to Jernigan Capital***

JCap provides periodic reports to Jernigan Capital and its Board of Directors as required by the applicable Governing Documents. Jernigan Capital in turn includes disclosures required under the rules and regulations of the SEC to its stockholders.

The Governing Documents of, or U.S. federal securities laws applicable to, Jernigan Capital require annual audited financial statements to be distributed to the investors in such Jernigan Capital. Furthermore, JCap also generally provides on a periodic basis (typically, quarterly), unaudited performance and financial reports written to Jernigan Capital. In connection with the delivery of such periodic reports, JCap may be required by investors in Jernigan Capital to make the appropriate personnel available to present the reports and answer questions in respect thereof, or to make additional reasonable presentations and reports.

JCap distributes federal income tax-related schedules and information Jernigan Capital, where applicable, and provides certain other reports and analyses to Jernigan Capital upon request.

Finally, Jernigan Capital may hold annual investor meetings and calls and other interim calls as appropriate.

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

N/A

### **Item 15 – Custody**

It is JCap's general policy not to have physical custody of any client asset of Jernigan Capital. However, JCap may be deemed to have custody of the assets of certain Jernigan Capital because of the authority it or a related party has over assets. Jernigan Capital May receive account

statements directly from broker-dealers, banks or other qualified custodian. Jernigan Capital should carefully review these statements. Any issues or discrepancies should be communicated to JCap promptly. It is JCap's policy generally to cause Jernigan Capital to be audited annually and to distribute audited financial statements, prepared in accordance with GAAP, to its investors no later than 75 days after the end of each fiscal year.

**Item 16 - Investment Discretion**

Subject to the investment objectives, policies and restrictions of Jernigan Capital, as set forth in the Governing Documents thereof, including the investment guidelines approved by Jernigan Capital's independent directors that we follow. JCap has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each such collective investment vehicle, including the selection of, and commissions paid to, broker-dealers.

**Item 17 - Voting Client Securities**

Not Applicable

**Item 18 - Financial Information**

Not Applicable.