

# JCAP ADVISORS, LLC

## Form ADV Part 2A Firm Brochure

**December 5, 2017**

**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 (901) 567-9510 or [kelly@jernigancapital.com](mailto:kelly@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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Form ADV Part 2A: Firm Brochure

**Item 2 - Material Changes**

Since its last brochure dated March 23, 2017, JCap has amended its brochure to reflect the following material change:

JCap's assets under management as of September 30, 2017 are \$284.2 million.

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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, and John Good.

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 Jernigan Capital's governing documents (the "Governing Documents"), including the management agreement between JCap and Jernigan Capital, which may be found on Jernigan Capital's corporate website or filed as exhibits to Jernigan Capital's Registration Statement on Form S-11 (and as amended in Jernigan Capital's Form 8-K dated May 23, 2016), as filed with the Securities and Exchange Commission (the "SEC"). JCap manages the business of Jernigan Capital in accordance with investment guidelines that are approved by the independent directors of Jernigan Capital. As of September 30, 2017, JCap had assets under management ("AUM") of approximately \$284.2 million.

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

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

The information below relates solely to fees paid by Jernigan Capital to JCap since Jernigan Capital is currently 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 calculated and payable quarterly in arrears in cash (a 1.5% annual rate). 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 JCap shall promptly deliver a written statement detailing such calculation 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 is 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 the amount equal to (i) net income (loss) determined under GAAP plus (ii) 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), plus (iii) any unrealized losses or other non-cash expense items reflected in GAAP net income (loss), (iv) less any unrealized gains reflected in GAAP net income (including any unrealized appreciation with respect to self-storage facilities that Jernigan Capital has not yet acquired). 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. In addition to the adjustments described in the immediately preceding sentence, with respect to any self-storage facility acquired by Jernigan Capital with respect to which Jernigan Capital had an outstanding loan as of the time of such acquisition, Core Earnings will also be increased by the difference between (A) the appraised value, as determined by a nationally recognized, independent third-party appraiser mutually agreed to by Jernigan Capital and JCAP who has significant expertise in valuing self-storage properties, and (B) the sum of (x) the outstanding principal amount of any loan made by Jernigan Capital, Jernigan Capital Operating Company LLC, or any subsidiary thereof that is secured by such acquired self-storage facility at the time of such acquisition, plus (y) any other consideration given to the former owner upon such acquisition. This addition is intended to include in Core Earnings the amount of Jernigan Capital’s unrealized gain on account of its acquisition of a self-storage facility without such facility being sold to a third party buyer in the open market.

### ***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 the salary and bonus of its chief executive officer, the salary and bonus of its chief financial officer, and a

portion of the salary and bonus of its President and Chief Operating Officer and its former Vice-President of Investments;

- 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 itself 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 JCap of its 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 Jernigan Capital.

From time to time, JCap may consider investments in joint ventures or other investments in private operating companies established for a particular purpose and in which Jernigan Capital may invest "in-kind" or in cash. Investment by other participants in such joint ventures may be contingent on the receipt of commercial financing or institutional co-investments which may or may not be obtained. JCap will provide Jernigan Capital with an analysis of the credit



worthiness of any proposed joint venture participant, proposed underlying loans or institutional co-investors and the terms of any proposed joint venture governing documents.

### ***Material Risks***

JCap invests primarily in privately negotiated debt, equity and equity-related investments in the self-storage industry. Identifying such investment opportunities and managing such investments can be difficult. There can be no assurance that JCap will be able to make and realize any particular investment or generate returns. Certain material risks relating to JCap's investment strategies are set forth below. Please see the Governing Documents of Jernigan Capital, along with its annual report on Form 10-K, for more complete information on investment strategies employed on behalf of Jernigan Capital and the corresponding risks associated with such investment strategies.

Investments in privately negotiated debt, equity and equity-related investments in the self-storage industry may be subject to risks related to credit quality of such assets, interest rates, liquidity, prepayment speeds and market value. JCap believes such risk can be quantified from historical experience and seeks to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with such risks.

### ***Credit Risk***

Investments made by JCap will have exposure to credit risk. JCap seeks to manage credit risk by performing deep credit fundamental analysis of potential assets. Credit risk will also be addressed through JCap's on-going review, and investments will be monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a monthly basis. Generally, JCap is not limited in the amount of Jernigan Capital's equity that may be invested in any type of target investments. JCap's investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments.

### ***Interest Rate Risk***

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. Investments made by JCap will be subject to interest rate risk in connection with financing obligations of underlying properties. In general, JCap expects to finance the origination or acquisition of target investments through financings in the form of borrowings under credit facilities (including term loans and revolving facilities). JCap may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap agreements. Interest rate swap agreements are intended to serve as a hedge against future interest rate increases on our borrowings. JCap may also seek to limit the exposure of borrowings to future fluctuations of interest rates through the use of interest-rate caps and other interest rate hedging instruments.

### ***Interest Rate Mismatch Risk***

Jernigan Capital may fund a portion of its origination or acquisition of mortgage loans with borrowings that are based on LIBOR, while the interest rates on these loans may be indexed to non-LIBOR indices, such as U.S. Treasury Yields and other similar index rates. Accordingly, any increase in LIBOR relative to other index rates will generally result in an increase in borrowing costs that may not be matched by a corresponding increase in the interest earnings on these loans. Any such interest rate index mismatch could adversely affect Jernigan Capital's profitability. To mitigate interest rate mismatches, JCap may utilize the hedging strategies discussed above.

Our analysis of risks is based on JCap's experience, estimates, models and assumptions. These analyses rely on models which employ estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by our management may produce results that may differ significantly from the estimates and assumptions used in JCap's models and projected results.

### *Market Risk*

Estimated fair values of development property investments and operating property loans will fluctuate primarily due to changes in interest rates, capitalization rates, and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of such investments may be adversely impacted.

**Competition for Investments.** JCap operates in a competitive market for investment opportunities and competition may limit its ability to originate or acquire desirable investments in target investments and could also affect the pricing of these investments and the available supply of investment opportunities deemed suitable for Jernigan Capital. 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 competes in a limited market 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 of which may be larger or better funded than JCap and Jernigan Capital.

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

Many of JCap's investments will not be rated or will be rated as non-investment grade by the rating agencies. As a result, these investments should be expected to have a higher risk of default and loss than investment grade rated assets. 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.** JCap may invest a significant portion of Jernigan Capital's assets in Junior Mortgage Loans and other similar higher yielding loans. If a borrower senior loan defaults, there may not be sufficient funds remaining for Junior Mortgage Loan holders after payment to the senior loan holders.

**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 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 particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty or 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.** Self-storage development property investments and operating property loans are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans or loans, as the case may be, which could also cause us to suffer losses.

**Hedging Policies/Risks.** JCap may employ hedging techniques designed to protect 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 a portfolio may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates or other factors may result in a poorer overall performance than if it had not entered into such hedging transactions.

**Leverage.** Leverage creates an opportunity for increased returns, but at the same time creates risks. There can be no assurance that JCap's use of leverage will prove to be beneficial.

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

Neither JCap nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to the 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 third-party investment advisers. 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, 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, Jernigan Capital’s investments and overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by senior investment professionals. 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 and U.S. federal securities laws applicable to Jernigan Capital require annual audited financial statements to be distributed to the investors in Jernigan Capital. Furthermore, JCap also generally provides on a periodic basis (typically, quarterly), unaudited performance and financial reports 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 to 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 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 custodians. 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 90 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, including the investment guidelines approved by Jernigan Capital's independent directors, 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, broker- dealers.

#### **Item 17 - Voting Client Securities**

Not Applicable.

#### **Item 18 - Financial Information**

Not Applicable.