



PRESCOTT ADVISORS, LLC

Form ADV Part 2 Brochure

This Brochure (the “Brochure”) provides information about the qualifications and business practices of Prescott Advisors, LLC (“Prescott,” the “Firm,” “we,” “us” or “our”). If you have any questions about the contents of this Brochure, please contact us at (214) 750-0009. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Prescott also is available on the SEC’s website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for MC Management is 283784.

Prescott is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

Prescott Advisors, LLC

6060 North Central Expressway

Suite 101

Dallas, Texas 75206

Phone: (214) 750-0009

Fax: (214) 750-0031

info@prescottgroup.com

www.prescottgroup.com

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Item 2 Material Changes

Prescott filed its initial application to register as an investment adviser with the SEC on September 7, 2017. Accordingly, pursuant to disclosure rules under the Advisers Act, this is the first Brochure compiled by Prescott to provide new and prospective investors with clearly written, meaningful, current disclosure of its business practices, conflicts of interest and the background of its advisory personnel. All recipients of this Brochure are encouraged to read it carefully in its entirety.

In the future, this section of the Brochure will identify, address and discuss only the material changes since the last delivery or posting of this Brochure on the SEC's public disclosure website (IAPD) to assist and make you aware of certain information that has changed since the prior year's Brochure.

Prescott will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, Prescott's Brochure may be requested by contacting Mr. Steven A. Abney, Chief Compliance Officer at (214) 750-0009 or sabney@prescottadv.com.

Additional information about Prescott is also available via the SEC's web site www.adviserinfo.sec.gov. The searchable IARD/CRD number for Prescott is 283784. The SEC's web site also provides information about any persons affiliated with Prescott who are registered, or are required to be registered, as investment adviser representatives of Prescott.



IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE

This Disclosure Brochure is not:

- ***an offer or agreement to provide advisory services to any person***
- ***an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer***
- ***a complete discussion of the features, risks or conflicts associated with any Issuer***

As required by the Advisers Act, Prescott provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a private pooled investment vehicle, together with other relevant governing documents, such as the private pooled investment vehicle's private placement memoranda or offering circular, prior to, or in connection with, such persons' investment in the private pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of Prescott, persons who receive this Brochure (whether or not from Prescott) should be aware that it is designed solely to provide information about Prescott as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each private pooled investment vehicle is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by Prescott. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.



Item 3 Table of Contents

Item 1 Cover Page	i
Item 2 Material Changes	ii
Item 3 Table of Contents	iv
Item 4 Advisory Business	1
Item 5 Fees and Compensation	3
Item 6 Performance-Based Fees and Side-By-Side Management	7
Item 7 Types of Clients	8
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	9
Item 9 Disciplinary Information	26
Item 10 Other Financial Industry Activities and Affiliations	27
Item 11 Code of Ethics	30
Item 12 Brokerage Practices	36
Item 13 Review of Accounts	39
Item 14 Client Referrals and Other Compensation	40
Item 15 Custody	41
Item 16 Investment Discretion	42
Item 17 Voting Client Securities	43
Item 18 Financial Information	44



Item 4 Advisory Business

Firm Description

Prescott is a Texas limited liability company that was formed on June 21, 2013 for the purpose of providing discretionary investment advisory services to affiliated (sponsored) private pooled investment vehicles. Prescott's investment advisory services are provided in accordance with the investment objectives and guidelines set forth in the applicable governing, offering and/or account documents, and the information in this Brochure is qualified in its entirety by the information set forth in such documents. Prescott and its affiliates are headquartered in Dallas, Texas. The primary principal owners are Messrs. Judson L. ("Jud") Pankey, as Managing Principal, Vance E. Detwiler, as President, and Richie L. Butler, as Senior Managing Director (each a principal, the "Principals").

Prescott is affiliated with PGS I GP, LLC, a Texas limited liability company; Prescott Strategies Fund I GP, LLC, a Texas limited liability company; Prescott Realty Group, Inc., a Texas corporation; and Dyck-O'Neal, Inc., a Texas corporation. PGS I GP, LLC and Prescott Strategies Fund I GP, LLC serve as the ultimate general partner and general partner, respectively to Prescott's affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP, a Delaware limited partnership, and have delegated exclusive investment advisory and other authority with respect to Prescott Strategies Fund I, LP to Prescott. Certain employees of Prescott are also employees of Prescott's affiliates, Prescott Realty Group, Inc. and Dyck-O'Neal, Inc. These relationships are reviewed for potential conflicts of interest and supervised as necessary. See *Item 10 – Other Financial Industry Activities and Affiliations* of this Brochure for more information.

Advisory Services

As stated above, Prescott currently provides discretionary investment advisory services to one affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP (the "Fund" or "Client"). Prescott will primarily pursue real estate and real estate related investments for the Fund in the following categories: real estate loans and debt instruments; real estate partnership recapitalizations, with a focus on tenant-in-common arrangements ("TICs") and Delaware Statutory Trusts ("DSTs"); and strategic development and redevelopment. Prescott believes this approach creates the opportunity for the Fund to deploy through all seasons of the real estate cycle. The type of Fund to which Prescott provides investment management services is more fully disclosed in Prescott's Form ADV Part 1 and summarized in *Item 7 – Types of Clients* of this Brochure. In addition, Prescott's investment philosophy, context and process, including portfolio construction are more fully disclosed in *Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss* of this Brochure.

Pursuant to an investment management agreement (the "Investment Management Agreement"), Prescott Strategies Fund I GP, LLC, the general partner of the Fund (the "General Partner"), has engaged Prescott to provide origination, acquisition, asset management, and other administrative services to the Fund in accordance with the Fund's private placement memorandum, limited partnership agreement or other similar disclosure and governing documents (collectively, the "governing documents"). Prescott's investment advisory services consist of managing the Fund's portfolio of investments, including sourcing, selecting, determining investments in, and monitoring investments by the Fund and the execution of transactions on behalf of the Fund. Prescott provides investment advisory services to the Fund in accordance with the investment objectives, policies and guidelines set forth in the Fund's governing documents, and is not tailored to the individualized needs or objectives of any particular Fund investor. An investment in the Fund by an investor does not, in and of itself, create an advisory relationship between the investor and Prescott. Investors are not permitted to impose restrictions or limitations on the management of the Fund. The



General Partner may enter into side letter agreements or arrangements with one or more investors in the Fund that alter, modify or change the terms of the interests held by such investors.

ALL DISCUSSION OF THE FUND IN THIS BROCHURE, INCLUDING BUT NOT LIMITED TO ITS INVESTMENTS, THE STRATEGIES USED IN MANAGING THE FUND, AND CONFLICTS OF INTEREST FACED BY PRESCOTT IN CONNECTION WITH THE MANAGEMENT OF THE FUND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE FUND'S GOVERNING DOCUMENTS.

Wrap Fee Programs

Prescott does not participate in or sponsor any wrap fee programs.

Assets Under Management

As of September 7, 2017, Prescott managed \$40,000,000 of advisory assets, of which all were on a discretionary basis and none were on a non-discretionary basis. The SEC has adopted a uniform method for advisers to calculate assets under management for regulatory purposes which it refers to as an adviser's "regulatory assets under management." Regulatory assets under management are generally an adviser's gross assets, i.e., assets under management without deduction for outstanding indebtedness or other accrued but unpaid liabilities. Prescott reports its regulatory assets under management in Item 5 of Part 1 of Form ADV which you can find at www.adviserinfo.sec.gov.



Item 5 Fees and Compensation

In consideration for Prescott's advisory and other services, Prescott and/or certain of its affiliates generally are entitled to receive management fees, and may receive performance allocations, with respect to the Fund. While the fees and compensation applicable to the Fund are described in detail in the applicable governing documents, an overview of Prescott's basic fee schedule is summarized below. A potential investor should read and review all governing documents in their entirety before making any investment decisions.

Fee Schedules

Management Fee. In consideration for its advisory services to Prescott Strategies Fund I, LP (*i.e.*, the Fund), Prescott shall receive a "Management Fee" equal to 0.4375% quarterly (1.75% annually) of the total commitments of the Fund's investors until the end of the investment period¹ and 0.4375% quarterly (1.75% annually) of the net capital contributions of the Fund's investors with respect to the Fund's investments following termination of the investment period. The Management Fee will be paid out of cash flows of the Fund, through capital calls made by the Fund as provided in the Fund's governing documents, from Fund borrowings, or through a combination of the foregoing, as determined by the General Partner, and in any case shall be paid by the Fund to Prescott in quarterly installments in advance (pro-rated for any partial quarterly period for which it applies); provided that the first payment made at the initial closing will cover the first two (2) quarters beginning with the initial closing. Notwithstanding anything to the contrary preceding, the General Partner and any Fund investor who are affiliates of the General Partner will be excluded from the calculation of, and will not be required to fund any portion of, the Management Fee. Upon the termination of Prescott's Investment Management Agreement with the Fund, Prescott will refund to the Fund the pro-rated portion of any Management Fee already received by Fund for the period following the effective date of such termination.

Prescott and its related parties will benefit from Prescott's relationship with and its receipt of Management Fees from the Fund. Such Management Fees and relationship will enhance the value of Prescott, and the Fund investors (other than those Fund investors holding direct or indirect interests in Prescott) will not participate in any increase in the value of Prescott.

Conflicts may arise in determining whether Prescott has performed its obligations to the Fund, and/or whether Prescott (or any related party) is entitled to be indemnified pursuant to the provisions contained in the Investment Management Agreement.

The managers, officers, and employees of Prescott will devote such time as Prescott, in its sole discretion, deems necessary to perform its obligations under the Investment Management Agreement. The managers, officers, and employees of Prescott will also perform services for other clients of Prescott or other clients of Prescott's affiliates and conflicts of interest may arise in allocating management time, services, or functions among the Fund and other clients of Prescott or other clients of Prescott's affiliates.

¹ The "investment period" is three (3) years from the Fund's final closing. The initial closing will be as soon as practicable once the Fund has obtained \$50 million in commitments. The Fund may continue to raise funds and hold additional closings for up to twelve (12) months following the initial closing. The date the last closing is held is the final closing.



Carried Interest Distributions. The General Partner will receive carried interest distributions in connection with the management of the Fund. The General Partner will cause distributable funds of the Fund to be distributed as follows: (i) first, to the Fund investors until the aggregate cumulative distributions received by the Fund investors are equal to a cumulative preferred return of 9% per annum, compounded annually, on their outstanding capital contributions; (ii) second, to the Fund investors until the aggregate cumulative distributions received by the Fund investors are equal to their aggregate capital contributions; (iii) third, (A) 40% to the Fund investors (in proportion to their percentage interests in the Fund) and (B) 60% to the General Partner until the aggregate cumulative distributions received by the General Partner are equal to 20% of the sum of all distributions made to date under subsection (i) and this subsection (iii); and (iv) thereafter, (A) 80% to the Fund investors and (B) 20% to the General Partner.

The carried interest distributions made to the General Partner on investment gains may create an incentive for the General Partner's affiliate, Prescott, to cause the Fund to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. The carried interest distributions may create an incentive for Prescott to time investments, and the realization of investments, so as to maximize the carried interest distributions rather than the returns of the Fund.

It is anticipated that one or more of the Fund investors will hold an interest in the General Partner whereby such Fund investors will participate in the carried interest distributions received by the General Partner from the Fund (although such Fund investors will not participate in the management or operations of the General Partner). The other Fund investors will not participate in this arrangement.

The General Partner, on behalf of the Fund, may enter into side letter agreements with one or more Fund investors providing for revised economic terms, including, but not limited to, distribution provisions with respect to such Fund investor that differ from those set forth above. A conflict may arise where some Fund investors receive more favorable overall economic terms and other Fund investors will not participate in such terms. The General Partner will promptly deliver to Fund investors a copy of any side letter agreement providing for economic terms that vary from those set forth in the Fund's governing documents, but will not apply the revised economic terms to all Fund investors.

Other Fees and Expenses

Fund Expenses. With respect to the Fund, and as more fully described in the Fund's governing documents, the formation, offering, and initial organizational expenses of the Fund and all related entities will be paid by the Fund (or reimbursed to the General Partner), not to exceed \$750,000 in total. The Fund will bear the initial cost of placement fees, if any, when otherwise due and payable, provided that the Management Fees otherwise payable by the Fund to Prescott will be reduced until all such placement fees have been offset. The Fund, except as noted above, will pay all expenses related to its own operations, including fees, costs and expenses directly related to the acquisition, holding, operation, and disposition of investments, including travel and lodging costs associated with the acquisition, management, and disposition of investments, counsel, accountants, and advisory committee members², fees for consultants, advisors, lenders, and

² The Fund will form an "advisory committee" consisting of representatives of certain Fund investors. The advisory committee will provide general advice to the General Partner and Prescott as well as approving transactions with and dealing with conflicts of interest that arise with respect to the General Partner, Prescott, and their affiliates. The costs and expenses incurred in connection with the advisory committee and its operations shall be paid by the Fund.



investment bankers, any insurance, indemnity or litigation expenses and any taxes, fees or other governmental charges levied against the Fund. In addition, the Fund will be responsible for all fees and expenses due any legal, financial, accounting, consulting, other advisors or any lenders, investment banks and other financing sources in connection with transactions which are investigated but not consummated. The Fund also bears all out-of-pocket costs of the operation and administration of the Fund, including, without limitation, compliance costs, such as costs of compliance programs, third-party compliance consultants, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving the Fund or Prescott); accounting, audit and legal expenses (including those incurred for the Fund, the General Partner or Prescott to comply with applicable law, rule or regulation), and costs associated with reporting and providing information to existing and prospective investors. However, the General Partner or Prescott may, in its sole discretion, choose to absorb any such expenses incurred on behalf of the Fund.

If an expense is incurred by the General Partner, the Fund or any of their affiliates, and such expense benefits not only the Fund but also a co-investor, then such expense will be allocated among and reimbursed by such benefiting entities in such a manner as determined equitable by the General Partner. It is anticipated that this allocation will be pro rata based upon the total commitments of the respective investment groups and the total capital committed to the various investments. This is true with respect to the payment of the acquisition fee as well. If the General Partner determines that the method of allocation of expenses or fees is based in whole or part on the total capital committed to the Fund and any co-investors, or upon the amount invested by such entities in a particular investment, then the General Partner may adjust the burden of the reimbursed expense or fee if, as and when the amounts of committed capital or invested capital change.

Asset Management and Development Services. The Fund (or a subsidiary or affiliate of the Fund) will (i) engage an affiliate of Prescott, Prescott Realty Group, Inc. ("PRG"), to provide asset management, property management, and development services with respect to the Fund's equity and real estate investments and (ii) engage an affiliate of Prescott, Dyck O'Neal, Inc. ("DONI"), to provide debt collection, loan servicing, and restructuring consultation services with respect to the Fund's debt investments. The terms of each such arrangement will be either (a) consistent with the fee schedule contained within the Fund's governing documents or (b) specifically approved by the Fund's advisory committee consisting of representatives of certain Fund investors (with any such approved engagement also being subject to review and approval by the advisory committee as to the fees and other compensation being paid thereunder upon such engagement's renewal).

The fees charged by such affiliated service providers may create an incentive for Prescott to manage the Fund's investments in a manner that maximizes such fees, which may reduce the amount of income and profits made available to the Fund. Prescott and the Principals will benefit from the affiliated service providers' relationships with the Fund and their receipt of fees from the Fund. The Fund investors (other than those Fund investors affiliated with Prescott) will not participate in any increase in the value of the affiliated service providers. Conflicts may arise in determining whether the affiliated service providers have performed their respective obligations to the Fund and/or whether the affiliated service providers or any related parties are entitled to be indemnified pursuant to the provisions contained in the Fund's governing documents or any other applicable agreement.



Prescott's Expenses. Prescott will be responsible for all of its day-to-day expenses, including office overhead and compensation of employees. The Fund will not be responsible for any of Prescott's day-to-day expenses, including office overhead and compensation of employees.

Other Compensation

Other than as described above, neither Prescott nor any of its supervised persons receive any compensation from the sale of securities, as defined in section 2(a)(18) of the Advisers Act, or other pooled investment vehicle products, including asset-based sales charges or service fees from the sale of shares of an open-end investment company (e.g., mutual fund).



Item 6 Performance-Based Fees and Side-By-Side Management

As stated above in Item 5 of this Brochure, Prescott's affiliate, Prescott Strategies Fund I GP, LLC (*i.e.*, the General Partner) is entitled to receive performance-based fees or allocations with respect to each investor in the Fund. These payments are subject to Section 205(a)(1) of the Advisers Act, in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to "qualified clients" as defined in Rule 205-3(d)(1) of the Advisers Act.

Performance-based fees and allocations could motivate Prescott, due to its relationship with its affiliates, to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. In addition, because performance-based fees or allocations with respect to the Fund may be calculated on a basis that includes both realized and unrealized appreciation in the Fund's portfolio based upon values assigned by Prescott, Prescott faces a conflict of interest in valuing the Fund's portfolio. Certain individual employees and affiliates of Prescott who are compensated to some extent based upon investment profits for which they are responsible face the same potential conflicts. Prescott address these conflicts through full and fair disclosure in the applicable governing and/or offering documents and/or this Brochure.



Item 7 Types of Clients

As discussed in Item 4 – Advisory Business of this Brochure, Prescott currently provides investment management services, as an investment adviser, to one affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP (*i.e.*, the Fund), on a discretionary basis.

The offering of interests to investors in the Fund is not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any U.S. state or any other jurisdiction. The offering is made to U.S. persons in accordance with Regulation D promulgated under the Securities Act by the SEC and to non-U.S. persons in accordance with Regulation S promulgated under the Securities Act by the SEC. The Fund is not registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the “1940 Act”), in reliance upon an exemption from registration provided by Section 3(c)(1) thereunder.

Each investor in the Fund generally is required to certify that it is, among other things, an “accredited investor,” as such term is defined in Rule 501(a) of Regulation D under the Securities Act, and a “qualified client,” as such term is defined in Rule 205-3(d)(1) of the Advisers Act. In addition, each prospective investor generally is required to complete and return various subscription documents to Prescott, which are designed to provide Prescott and its affiliates and agents with important information about the investor. Subscriptions may be accepted or rejected, in whole or in part, in Prescott’s sole discretion.



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

Investment Strategy

Prescott primarily pursues real estate and real estate related investments in the following categories: (i) real estate loans and debt instruments; (ii) real estate partnership recapitalizations, with a focus on tenant-in-common arrangements (“TICs”) and Delaware Statutory Trusts (“DSTs”); and (iii) strategic developments and redevelopments.

Prescott believes this approach creates an opportunity for the Fund to capture the four seasons of the real estate cycle:

- (i) As the real estate cycle approaches the bottom and during the early period of recovery, Prescott will seek opportunities to make equity investments in value-add well-located commercial and residential properties in desirable high-growth markets.
- (ii) At the height of the real estate down-cycle, Prescott will seek to leverage the Fund’s buying power to acquire quality assets at a low basis either through equity or by purchasing the related debt where the underlying collateral has long-term potential as the market recovers and the cycle begins its upswing.
- (iii) As the real estate market recovers, Prescott will seek select opportunities to develop new products or redevelop/repurpose existing assets in close-in urban “live, work, play” locations. Prescott will also seek out “urbanizing suburban” development opportunities when economically justified.
- (iv) As the real estate market peaks, Prescott will seek opportunities to restructure troubled investments, distressed debt and dysfunctional partnerships.



Prescott believes in the “direct operator” model and will seek to deploy capital into projects and manage the projects through the entire investment cycle. Prescott will seek to create transparency and alignment with the Fund’s investors by structuring the Fund’s investments so as to eliminate any “double promote” structure that would reduce investment returns at the Fund level.

Investment Philosophy

Prescott’s proactive, solutions-based operating and investment strategy is executed by an experienced and disciplined investment team. Prescott believes its ability to identify market inefficiencies and implement strategies to improve property or collateral value, the use of technology to streamline operations, and existing relationships with third-party service providers create value and enhance returns to each project. Prescott’s investment philosophy is based on the following factors: (i) leverage an institutionally experienced and disciplined executive team; (ii) cultivate key partnerships and relationships with leading investment, restructuring, advisory and lending firms; (iii) identify and acquire properties and real estate related debt in negotiated transactions; (iv) utilize and understand technology to streamline operational processes, valuation exercises and communication flow; and (v) emphasize public/private partnerships.

The “value creation” process is the foundation by which Prescott operates. In each deal, Prescott seeks to create value by combining one or more of the following strategies: (i) source “under-the-radar” investment opportunities; (ii) negotiate favorable deal terms that provide the greatest flexibility at all stages; (iii) apply solid real estate strategies to optimize the property value and preserve collateral value; and (iv) manage the asset or redevelopment efficiently.

Investment Process

Prescott’s investment committee (the “Investment Committee”) will be responsible for overseeing Prescott’s investment process from the origination of each investment transaction, through asset management and ultimately the realization of the investment. Prescott intends to follow a four-step investment process that includes deal sourcing, underwriting and acquisition, management, and realization.

Deal Sourcing. Prescott and its affiliates, PRG and DONI, possesses extensive relationships within real estate investment and development circles. These networks not only allow Prescott to identify undetected investment opportunities, but also allows Prescott to stay current in identifying market trends, which allows for a proactive (rather than reactive) process for sourcing investments. Prescott has a network of banking and loan servicing contacts that provides access to note and loan pool purchases, municipal and land owner contacts for development opportunities and enterprise partners for additional value-add opportunities. Additionally, Prescott personnel, who are members of the investment team, will target specific geographic location and asset types based on their expertise. Prescott possesses extensive relationships with regional enterprise partners that live and work in the target markets and are constantly identifying new opportunities and trends in target markets.

Prescott expects to utilize various methods to identify the deal flow, such as TREPP access, Bloomberg, Morningstar’s Commercial Mortgage-Backed Securities (“CMBS”) data, law firm contacts, and its affiliation with DONI. Prescott will access TREPP to identify maturing CMBS loans with broken ownership structures, TIC structures, or DST structures. Through this database, Prescott will be able to identify key loan information data such as ownership structure, lender name, maturity date, and property types. Prescott believes that DONI’s relationships with Fannie Mae and Freddie Mac will provide additional opportunities. After Prescott has identified applicable loan



details, Prescott will seek to gain access to those accounts by contacting bank lenders and loan servicers who are facing loan maturities or loan in default/special servicing or who are simply trying to shed TIC loans or select high leveraged loans from their balance sheets. Prescott believes contacting law and accounting firms involved in TIC related ownership litigation will be another channel to identify deal flow. Many of DONI's clients are the most recognized names in the U.S. commercial and residential lending industry, and Prescott believes these clients could provide an introduction to TIC owned assets through lending relationships. Prescott will seek to target select properties from these watch lists, loan data, and relationships as potential restructure opportunities.

Prescott's initial due diligence and analysis generally includes assessment of current and future market conditions for specific assets, assessment of asset sellers and other counterparties, and identification of available financing opportunities from counterparties and third parties. When considering whether, and in what manner, a potential investment opportunity should be financed, Prescott may consider, among other things, the availability of financing opportunities, the cost of each opportunity, the duration of the financing, the relevant risks of each opportunity, and whether such financing is likely to be obtained, and obtained in a timely fashion.

Transaction Underwriting and Acquisitions. Prescott seeks to employ best practices in underwriting each project. First, an acquisitions officer and/or managing director of Prescott's investment team will work with brokers, bankers and other potential sellers, including, but not limited to, legal advisors, accountants, architects, municipal developers and other advisors and consultants to find a project that fits the property, type, location and class of asset that the Fund's portfolio is seeking to acquire. Next, Prescott will underwrite the investment, during which stage the acquisitions teams will contact local leasing brokers, investment sales brokers, and property owners and review market research data in order to determine the depth of the market. Concurrently, Prescott will conduct a detailed financial analysis and valuation of the asset, including (as applicable) a review of historical financial statements, construction costs, market studies, available public incentives and any other due diligence made available by the seller. If the asset's risk adjusted return meets the Fund's investment threshold and Prescott decides, based on the due diligence and analysis described above, that the Fund should pursue the relevant asset, Prescott's investment team recommends the asset to the Investment Committee in the form of an "Investment Committee Memorandum", which includes best and worst case scenarios with a suggested acquisition price. Additionally, Prescott's investment team will include any financing recommendations in the Investment Committee Memorandum; however, exact financing terms may not be known prior to Investment Committee approval. The Investment Committee must approve the potential investment before the Fund makes the investment.

After review and approval by the Investment Committee, Prescott, on behalf of the Fund, will make a suitable purchase price offer to the seller. If Prescott's purchase price offer is accepted, Prescott's acquisitions team will begin the due diligence phase, incorporating a comprehensive due diligence task list assigning tasks to different members of Prescott's investment team based upon skill set. During the due diligence phase, and depending on the type of acquisition, Prescott will conduct more detailed market studies, third-party reviews to confirm construction costing, property and environmental conditions and legal reviews. Additionally, Prescott may engage a mortgage broker to determine the cost and availability of debt for the project.

Prescott will continue to hold weekly meetings between the acquisitions team for the project and the Investment Committee, including other members of Prescott's senior management to help ensure that any major issues are quickly identified as the acquisitions team continues to validate



and adjust its initial underwriting. Finally, prior to the end of the inspection period, a post- and pre-due diligence pro forma and investment memorandum, along with the due diligence checklist, will be submitted to the Investment Committee to make a determination on whether or not to move forward with the acquisition.

Prescott's due diligence team will generally consist of a director/managing director who helped sourced the deal, a senior analyst/asset manager, a junior analyst, an administrative assistant and a member of the accounting team. Prescott will typically outsource standard third-party reports (such as market reports, environmental reports, property condition reports, and roof reports), forensic engineering, surveys and legal services. Prescott will also seek to partner with local market experts to assist with market feasibility (brokers, developers, etc.), as well as strategic enterprise partners who are skilled in a specific asset class.

Investment Management. Upon completion of an acquisition or development, Prescott will develop a specific set of guidelines to direct property management, leasing, construction management and development, as appropriate, as a means of maintaining consistency and preventing oversight or error. Prescott's guidelines outline project goals and criteria for measuring project performance. Assets will be reviewed thoroughly each month with data available on monthly, quarterly, and annual bases. Prescott will actively manage properties in-house, while outsourcing leasing activities to reputable leasing firms that demonstrate superior local market knowledge. Upon acquisition of an asset, the asset manager for the property will be responsible for implementing a strategy for adding value to the asset that is designed to the specifics of the property. The asset managers will work with the individual property managers, leasing team and on-site engineers and conduct either weekly or bi-weekly calls to ensure that the business plan is properly implemented and adjusted if necessary. In addition, the asset management team will review monthly operating reports from the property to verify that the property is on budget and meeting expectations. Finally, during critical junctures (such as a major tenant renewal, large capital improvement project, and loan maturity) asset managers will be in daily contact with the property managers.

Realization. The anticipated hold period for each individual investment will be 3-5 years in order to coincide with the life of the Fund. Investment dispositions are contemplated by first attaining a "Broker Opinion of Value" and then listing the investment with an investment sales brokerage house. Once a call for offers are received, Prescott will consult with the broker and underwrite not only each offer by price, but also by offeror in order to select the most viable bid. The exit strategy will be determined by the business plan for each asset (which is updated on an annual basis) and macro-economic trends (e.g., demand for product in a market or product type, financing availability, etc.). To the extent, Prescott believes a specific buyer has a strategic reason to pay above market pricing for a given asset; Prescott will seek to implement a pre-emptive sale to such a strategic buyer. The Fund will typically exit certain investments, such as debt, by holding the asset until maturity, although these structured investments may be liquidated early in certain instances.

While not expected, it is possible that the Fund may assemble a portfolio of assets that is suitable for a strategic portfolio exit. Key variables considered when formulating the disposition strategy vary upon asset type. For a fee-simple asset they include current and near-term occupancy, replacement costs for similar properties, local cap rates and national cap rates for product type, as well as current yield vs. exit cap rate ratios. For construction projects, disposition strategies are primarily based on reaching stabilization of the asset as well as cap rate comparables. For debt investments, the disposition will be determined by either note maturity, successful restructuring of



loan terms or on negotiating a successful discounted payoff option with current borrower. In certain circumstances the Fund may foreclose on the borrower, and Prescott may use the same asset disposition criteria as for a similar fee simple property.

Risks

All investments involve the risk of loss that the Fund and its underlying investors should be prepared to bear. A more detailed discussion of the risks relating to an investment in the Fund can be found in the Fund's governing documents.

Material Risks of Loss Related to Methods of Analysis. Prescott seeks to perform reasonable and proper due diligence and analysis on each prospective investment, in an effort to identify, based on relevant facts and circumstances, investment opportunities and possible risks related to those opportunities. In conducting research and analysis, Prescott depends on available resources, including information disclosed by the investment counterparty, and possibly other third parties involved in a potential investment transaction. The methods of analysis that Prescott employs when determining whether to recommend the Fund make a particular investment, may be subjective and cause the Fund to lose money over short or long periods. As a result, as well as due to other risks inherent in investments generally, there can be no assurance that Prescott's recommendations will satisfy the investment objectives of the Fund or that the Fund will be able to carry out its investment strategy successfully.

Investment analyses and decisions by Prescott may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to Prescott at the time of an investment decision may be limited, and Prescott may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural or environmental matters, zoning regulations, or other local conditions affecting an investment. With respect to real estate-related investments, Prescott may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with typical commercial or customary practice. Therefore, no assurance can be given that Prescott will have knowledge of all circumstances that may adversely affect an investment. In addition, Prescott may rely upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will accurately evaluate such investments, and the Fund may incur liability as a result of such consultants' actions.

Methods of Analysis of Residential Mortgage-Backed Securities. The material risks related to evaluating residential mortgage-backed securities would similarly pertain to any residential mortgage loan, using a credit-based model, including: (i) changes affecting the model inputs used to project performance (such as prepayment speeds, delinquency rates, loss severities and interest rate assumptions); and (ii) the potential for new variables (such as foreclosure moratoriums, new governmental programs, legislative or regulatory changes) to impact actual performance. To address these risks, Prescott performs regular model validation tests and adjusts the models to account for changes in the market, including credit trends, servicing trends and legislative and regulatory developments. Other material risks related to evaluating mortgage-backed securities and other residential mortgage loans include events that either diminish the total recovery amount on the underlying asset or significantly extend the timing of collection of such recovery amount from the sale of the underlying property. To assess these risks, Prescott performs multi-scenario valuations (including what Prescott believes to be stress-case valuations) in an attempt to determine potential downside risks of the investment. These securities also carry the risk of



document ambiguities, errors or omissions. To help mitigate these risks, Prescott engages external counsel, when appropriate, to review associated documents and evaluate these potential risks.

Methods of Analysis of Single-Multi-Family Residential Whole Loans. The material risks related to evaluating loans include: (i) changes affecting the model inputs used to project loan performance and (ii) the potential for new variables to significantly impact the likelihood of loan repayment. To address these risks, Prescott performs periodic model validation tests and adjusts the models to account for changes in the market, including housing trends. Prescott performs multi-scenario valuations in an attempt to assess downside risk. Non-performing residential mortgage loans also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, Prescott may engage third-party due diligence vendors to review a sample of loans purchased.

Methods of Analysis of Commercial Real Estate Assets. The material risks related to evaluating commercial mortgage-backed securities, commercial real estate loans and properties include: (i) changes affecting the model inputs used in the valuations and (ii) the potential for new variables to significantly impact the ability to realize a profit on the investment. To assess these risks, Prescott uses on-going surveillance of the market to adjust the model for a particular investment, and performs multi-scenario valuations in an attempt to assess downside risk. Commercial real estate loans and properties also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, Prescott may engage third-party due diligence vendors to review a sample of loans purchased.

New Entity Risk. Both Prescott and the Fund are newly formed and their future prospects are extremely difficult to evaluate. As a result, Prescott and the Fund do not have any investment history on which an evaluation of the Fund's prospects can be based. These risks are heightened in a volatile industry such as real estate investment. If the Fund's investment strategy is not successful, an investment in the Fund could significantly diminish in value or be lost completely.

Opportunistic Investment Strategy. The Fund will make opportunistic investments within the scope of the investment program set out in Fund's governing documents. The opportunistic investment strategy utilized by Prescott on behalf of the Fund generally does not incorporate consideration of other investments held in a fund's investment portfolio. Accordingly, portfolio risk controls such as value at risk metrics, investment diversification across regions or industries or avoidance of risk concentration at the investment portfolio level are typically not considered when assessing the merits of a potential investment. Instead, the Funds' opportunistic investment strategy focuses on the expected returns of each potential investment on an individual basis. This opportunistic investment strategy may result in a significantly higher risk profile of the Fund compared to a strategy that actively diversifies investments across type, sector, location, and/or other risk factors.

Exemption from Registration. The Fund and its interests are not expected to be registered under the Securities Act or the securities laws of any other jurisdiction. The Fund will not be registered as an investment company under the 1940 Act and, therefore, will not be required to adhere to the restrictions and requirements under the 1940 Act. Accordingly, the provisions of the 1940 Act (which, among other things, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit the investment companies from engaging in certain transactions with its affiliates and regulate the relationship between advisers and investment companies) are not applicable.



Risks of Investing in Real Estate and Real Estate-Related Assets. Prescott, on behalf of the Fund, will make fee simple, equity, and debt investments in real estate property, such investments may include partnership restructures, debt modifications, redevelopment and development. Such investments are subject to various risks associated with investments generally, including adverse changes in national or international economic conditions, local market conditions, availability or terms of debt financing, interest rates, governmental rules and fiscal policies, and energy prices, as well as risks due to dependence on cash flow, acts of God, unforeseen events, acts of terrorism, war, uninsurable losses, and other factors which are beyond the control of Prescott and its affiliates.

Investments in real estate assets and real estate-related investments are subject to various risks associated with the real estate industry generally, including adverse changes in the financial conditions of tenants, buyers, and sellers of properties, the availability of financing, real estate taxes, interest rates, and other operating expenses, insurance, environmental laws and regulations, zoning laws, and other governmental rules and fiscal policies, the relative popularity of certain property types and locations, and the availability of certain construction materials. Developments in global and local financial and real estate markets over the past few years, and new developments in those markets, if they occur, may result in reductions in the value of real property interests. The real estate assets associated with the Fund's investments may be or become non-performing after acquisition for a wide variety of reasons. Such non-performing real estate investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such investment. However, even if an asset is performing as expected, a risk exists that, upon maturity of financing, replacement "takeout" financing will not be available or will not be available on attractive terms. It is possible that Prescott, on behalf of the Fund, may find it necessary or desirable to foreclose on some of the collateral securing one or more debt investments, which process can be lengthy and expensive. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, which may have the effect of further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Risks of Investing in Commercial Real Estate Assets. Investments in commercial real estate assets in particular are subject to a number of factors affecting the demand for commercial real estate, including, but not limited to, the local, national, and international economic climate, local real estate conditions, and other factors which are beyond the control of Prescott and its affiliates. A decrease in demand for office space could substantially adversely affect one or more of the Fund's investments, thereby reducing or eliminating the return on investments for the Investors.

Adverse changes in the operation of any property, or the financial condition of tenants, could have an adverse effect on the Fund's ability to collect lease payments and, accordingly, on its ability to make distributions to Fund investors. A tenant may experience, from time to time, a downturn in its financial condition that could result in its failure to make lease payments when due. The financial condition of tenants is subject to adverse changes in national or international economic conditions and local market conditions. The financial conditions of tenants may change rapidly and be difficult to evaluate accurately. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease or other adverse consequences and thereby cause a reduction in the distributable cash flow of the Fund. No assurance can be given that tenants will not file for bankruptcy protection or otherwise avail themselves of debtor protection laws in the future or, if they do, that their leases will continue in effect.



Risks of Investing in Multifamily Real Estate Assets. Investments in multifamily housing in particular are subject to a number of factors affecting the demand for such housing, including, but not limited to, the local economic climate (which may be adversely impacted by industry slowdowns, business or military base closings, and changing demographics), local real estate conditions (such as reduced demand for apartments or new construction, shadow market supply, and other sources of oversupply of apartments), the perceptions of prospective residents of the safety, convenience, and attractiveness of the communities or neighborhoods in which such multifamily housing units are located, the quality of local schools and other amenities, and other factors which are beyond the control of Prescott and its affiliates. A decrease in demand for multifamily housing could substantially adversely affect one or more of the Fund's investments, thereby reducing or eliminating the return on investments for Fund investors.

In order to attract prospective residents and retain existing residents, multifamily real estate assets often incur substantial expenses associated with improvements and operations, including security, landscaping, repairs, and maintenance. Competition in the applicable markets may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates.

Adverse changes in the operation of any property, or the financial condition of tenants, could have an adverse effect on the Fund's ability to collect rent payments. A tenant may experience, from time to time, a loss of employment or downturn in their financial condition that could result in a failure to make rental payments when due. The financial condition of tenants is subject to adverse changes in national or international economic conditions and local market conditions. Under current economic conditions, the financial conditions of tenants may change rapidly and be difficult to evaluate accurately. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease or other adverse consequences and thereby cause a reduction in the distributable cash flow of the Fund. No assurance can be given that tenants will not file for bankruptcy protection or otherwise avail themselves of debtor protection laws in the future or, if they do, that their leases will continue in effect.

While it is not possible for Prescott or its affiliates to predict future legislation or administrative regulations with any certainty, government policies seeking to encourage home ownership could result in decreased demand for multifamily housing, which could substantially adversely affect one or more of the Fund's investments, thereby reducing or eliminating the return on investments for Fund investors.

Risks of Investing in Real Estate Development. Investments in real estate development are subject to various risks generally incident to the real estate industry as a whole, including, but not limited to, general and local economic conditions, the supply and demand for similar-type properties, the financial resources of buyers, sellers, and tenants of properties, the possibility of competitive over-building, the perceptions of prospective buyers of the safety, convenience, and attractiveness of certain properties, changes in zoning, building, environmental, and other governmental laws, national and local rent control laws, changes in real property tax rates, changes in interest rates and availability, cost, and terms of permanent mortgage indebtedness, uninsurable losses, and other factors beyond the control of Prescott and its affiliates. In addition, the real estate development industry is particularly subject to risks including, but not limited to, the availability of materials and labor and changes in the costs thereof, abandonment of development opportunities, construction or development costs of a property exceeding original estimates, unreliability of contractors selected to develop or construct a project, decreases in the availability of adequate land for development, curtailments of access to or unavailability of sewer, water, or other utility connections due to local moratoria, and competition from other developers and sellers of existing developments. Development activities can be subject to extensive regulation, resulting in risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits



and authorizations and changes in local circumstances or applicable law that may necessitate the application for additional approvals or the modification of existing approvals. Any of the foregoing could substantially adversely affect one or more of the Fund's investments, thereby reducing or eliminating the return on investments for Fund investors.

Risks Associated with Commercial Mortgage Loans. Prescott, on behalf of the Fund, may invest in commercial mortgage loans. The value of the Fund's commercial mortgage loans and the underlying real estate will be influenced by the historical rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults, and loss severity include economic and real estate market conditions by industry sectors (e.g., multifamily, retail, office), the terms and structure of the mortgage loans, and any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and other laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans that may be acquired generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage-backed securities bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Global financial and real estate markets have experienced a variety of difficulties and changed economic conditions in recent years. In particular, delinquencies and losses with respect to mortgage loans and the leveraged lending markets have increased and may continue to increase. These conditions have had significant adverse effects and may continue to have significant adverse effects on the global financial markets generally, including the commercial mortgage market. Numerous laws, regulations, and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed by various governmental authorities around the world. If enacted, these laws, regulations, and rules may result in delays in the foreclosure process, reduced payments by borrowers, or increased servicing expenses.

Risks Associated with Mortgage-Backed Securities. In general, risk factors discussed herein pertaining to mortgage loans (and the type of property securing such mortgage loans), would similarly pertain to any mortgage-backed security in which the Fund invests. Some or all of the potential mortgage-backed securities acquired by the Fund may not be rated, or may be rated lower than investment grade by one or more nationally recognized statistical rating organizations. The majority of the mortgage-backed securities in which the Fund may invest in are typically lower-rated or unrated, and the original ratings of many of these securities were withdrawn or downgraded to levels that are significantly below investment grade. Lower-rated or unrated mortgage-backed securities in which the Funds may invest have speculative



characteristics that can involve substantial financial risks. Securities rated lower than “B” can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect the Fund from loss. If the Fund invests in subordinated mortgage-backed securities in particular, the Fund will be first in line among debt holders to bear the risk of loss from collateral delinquencies and defaults. To the extent that the mortgage loans that underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Credit Risks. A Fund’s investment could lose money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived by market participants, ratings agencies, pricing services or others as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in their credit ratings. The downgrade of the credit of a security held by the Fund may decrease its value. “Opportunistic” assets are generally considered to have significant credit risk. With respect to the financing strategies and hedging, the Funds may also be subject to the risk that a counterparty to a financing arrangement or derivatives contract may be unable or unwilling to honor its obligations as a result of the counterparty’s financial condition or insolvency.

Investment in Troubled Assets. Prescott, on behalf of the Fund, may make investments in secured and unsecured non-performing loans or other troubled assets that involve a significant degree of legal and financial risk. Furthermore, investments in assets operating in workout modes or under Chapter 11 of the U.S. Bankruptcy Code, as amended, and other comparable reorganization laws may, in certain circumstances, be subject to additional potential liabilities that may exceed the value of the Fund’s original investment. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or counterclaims may be filed and lenders may be found liable for damages suffered by various parties as a result of such actions. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to investors in the Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Leverage. Prescott, on behalf of the Fund, intends to utilize a revolving credit facility and investment-level financing in connection with the Fund’s investment program. This leverage will increase the exposure of the Fund’s investments to adverse economic factors such as significantly rising interest rates, increased risk spreads, severe economic downturns, or deterioration in the condition of the investment or its corresponding market. Generally, the presence of leverage in the Fund’s investments will magnify their volatility and may substantially increase the Fund’s risk profile. In the event a specific investment is unable to generate sufficient cash flow to meet a principal or interest payment required to maintain the financing arrangement or a margin call related to an investment, the value of the Fund’s equity position in that investment and other investments of the Fund could be significantly reduced or even eliminated.

The amount and terms of financing available to the Fund could affect the returns generated by the Fund and the ability to structure potential transactions. While Prescott will take the availability and terms of financing into consideration when identifying, conducting due diligence on, and structuring potential investments, a decrease in the ability of the Fund to leverage its investments could adversely affect the returns generated by the Fund and could result in fewer investments being made, therefore reducing the diversification of the Fund’s investment portfolio. Further, deterioration in the ability of the Fund to leverage the investments could result in the aggregate return of the Fund being substantially adversely affected.



An inability of the Fund to re-lever or obtain take-out financing for its investments at the end of the term of a given financing arrangement may have an adverse impact on the aggregate returns of such investment. Further, in the event that any given financing arrangement is terminated prior to its expected term, the Fund may not be able to refinance the underlying investment in a timely manner, or on the same terms as the prior financing arrangement, or on any terms.

Hedging Transactions. In connection with its management of the Fund's assets, Prescott may recommend that the Fund or one or more of its subsidiaries enter into hedging and similar transactions with respect to interest rate risks where deemed appropriate and cost effective by Prescott. However, there is no assurance that such risks can be perfectly hedged or minimized where the magnitude and timing of future cash flows can only be estimated and not known with certainty. Thus, prudent hedging policies only serve to minimize or reduce these risks, but not to eliminate them completely. There can be no assurance that the Fund or the applicable subsidiary will have sufficient liquidity or credit capacity to support the hedging services, and no assurance that hedging techniques will be available, be available at a reasonable cost, or be sufficient to eliminate these risks. In addition, Prescott may recommend that the Fund or the applicable subsidiary hedge an investment's interest rate exposure at an amount less than the expected value of that investment. In such cases, the Fund or the applicable subsidiary may suffer losses from changes in interest rates that may have been recouped through hedging transactions if the investment had been fully hedged. With any hedging transaction, there exists a risk that any counterparty to a hedging transaction will not perform as expected. The Fund or the applicable subsidiary will bear the cost of any hedging transactions entered into on its behalf.

Lack of Liquidity of Investments. Most of the investments to be made by the Fund are highly illiquid, and there can be no assurance that the Fund will be able to liquidate these investments in a timely manner. Although it is anticipated that certain Investments of the Fund may generate current income, the return of capital and the realization of gains, if any, with respect to certain other investments will generally occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, typically this will occur a number of years after the investment is made. It is unlikely that a public market will exist for any of the investments held by the Fund. The Fund generally will not be able to sell its investments publicly unless their sale is registered under applicable U.S. federal, state, or other securities laws, or corresponding laws of non-U.S. jurisdictions, unless an exemption from such registration requirements is available. In some cases the Fund may be prohibited by contract or regulatory requirements from selling investments for a period of time. In addition, the types of investments held by the Fund may be such that they require a substantial length of time to liquidate. Prescott, on behalf of the Fund, will manage the cash and credit arrangements of the Fund with the goal of efficiently matching available liquidity to anticipated Fund obligations. There can be no assurance, however, that sufficient liquidity will be available to the Fund on favorable terms in all situations. In the event of a margin call or other loan repayment at a time when the Fund does not have sufficient cash assets to cover such call or payment, the Fund may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds to the Fund.

Investments through Partnerships and Joint Ventures. In connection with its management of the Fund's assets, Prescott may make investments through partnerships, joint ventures, operating companies, corporations, companies, or other entities (including, without limitation, restructures of existing partnerships or other entities). Such investments may involve risks not present in direct investments, including, for example, the possibility that an operating company, co-venturer, or partner of the Fund may commit fraud, become bankrupt, or have economic or business interests or goals which are inconsistent with those of the Fund, or that any such operating company, co-venturer, or partner may be in a position to take action contrary to the Fund's objectives. Furthermore, if a co-venturer or partner defaults on its funding



obligations, it may be difficult for the Fund to make up the shortfall from other sources. The Fund's investors may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the Fund, its assets, and the interests of the Fund's investors. In addition, the Fund may be liable for actions of its co-ventures or partners. While Prescott will attempt to limit the liability of the Fund by reviewing the qualifications and previous experience of co-ventures or partners, it does not expect generally to obtain financial information from, or to undertake private investigations with respect to, prospective co-ventures or partners.

Liabilities upon Disposition. In connection with the disposition of an investment, the Fund may be required to make representations about the business and financial affairs of the entities which hold the investment typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. The Fund may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities, which will be borne by the Fund.

Risks Associated with Unspecified Transactions. The business of identifying and structuring the acquisition of real estate-related investments is highly competitive and involves a high degree of uncertainty. No assurance can be given that the Fund will be successful in obtaining suitable investments.

Limited Current Return. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. Developments in global financial markets over the past few years and new developments in global and local markets, if they occur, may adversely impact the ability of the Fund to dispose of investments at their expected returns. Current returns from investments may vary because Prescott generally attempts to maximize realized returns on the disposition of the Fund's investments, and as such, will generally not favor early liquidation of an investment or foregoing potential disposition upside to maximize current returns.

Risk of Limited Number of Investments. The Fund may participate in a limited number of investments and, as a consequence, the aggregate return of the Fund may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, the diversification of the Fund's investments could be further limited and proportionately more capital employed to the extent the Fund invests a significant portion of its capital in a limited number of transactions.

Risks Associated with Competition in the Investment Industry. The investment and asset management industry is intensely competitive, and the Fund will compete with a number of private equity funds, specialized investment funds, corporate buyers, traditional asset managers, and other financial institutions. A number of these competitors may have access to more resources and personnel than Prescott, lower costs of capital than the Fund, and access to funding sources that are not available to the Fund. Several of these competitors are expected to raise significant amounts of capital, which may create additional competition for investment opportunities. Some of these competitors may have higher risk tolerances, different risk assessments, or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than the Fund for investments. Furthermore, there are limited actual barriers to entry impeding new investment funds, and the successful efforts of new entrants into the industry may result in increased competition. This competitive pressure could adversely affect the Fund's ability to make successful investments.



Market Risks. The Fund may invest in some securities that are publicly traded or traded in active private markets. The values of such securities are particularly susceptible to fluctuations based on market trends. Certain worldwide government bodies and central banks have responded to recent financial market turmoil with extraordinary intervention programs, the success of which has yet to be measured. As a result, credit availability has contracted and financing costs have increased, which have acted as barriers to new, sizeable, leveraged transactions. This reduced (or more expensive) credit availability, along with equity and debt security valuation declines, has negatively impacted the private equity sector. Further changes in stock prices, interest rates, currency exchange rates, or commodity prices could result in changes in the broader marketplace that adversely affect the value of publicly traded investments, particularly with respect to investments located in emerging markets or traded on relatively volatile exchanges. The Fund, at the recommendation of Prescott, may invest in publicly traded securities on markets that are relatively illiquid or volatile. The values of such investments are particularly susceptible to fluctuations based on market trends. The Fund may have difficulty disposing of such investments at a price and on terms that are attractive to the Fund.

Valuation Risks. The Fund's investments are expected to include illiquid, subordinate, non-traded, or lightly traded investments for which a traditional fair market value would be difficult and expensive, if not impossible, to determine. Therefore, Prescott will typically use discounted cash-flow value as a surrogate for traditional fair market value calculations, and may use valuations based on discounted cash-flow projections even when market values are available. Discounted cash flow estimates involve calculations of expected future cash flows, the timing of receipt of those expected cash flows, and the discount rate applied to the overall cash flows. The discounted cash-flow value of a Fund asset includes unrealized gains and losses, and may be adjusted by any cash distributed or contributed to the Fund or to reflect any permanent impairments to the asset values as determined by Prescott. Therefore, the value of assets based on discounted cash flows may vary from actual amounts realized upon the disposition of those assets being valued. There can be no assurances that valuation determinations based on discounted cash flow, or the assumptions used to make those determinations, will prove to be accurate. The Fund may, in limited situations such as with larger investments comprised of a single asset, rely on valuations they receive from third parties in determining the price paid for assets or the value of such asset. Such valuations may turn out to be inaccurate and therefore affect the Funds' returns with respect to such assets. There can be no certainty that the price paid for an asset by a Fund will be equal to or less than the determined fair value, and as such, this may have an impact on the fair value as it is calculated on a discounted cash-flow, rather than a price-paid, basis, and may have an impact on the performance reported to the Funds' investors with respect to individual assets and a Fund's entire portfolio.

Recourse to All Assets. The assets of the Fund will be available to satisfy all liabilities and other obligations of the Fund. If the Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and not be limited to any particular assets, such as the asset representing the investment giving rise to the liability.

Risk of Employee Misconduct. There is a risk that individuals employed by or associated with Prescott, PRG, or the Fund's co-ventures, partners, and service providers may engage in the fraudulent misappropriation of the Fund's assets or other misconduct that adversely affects the Fund's business or reputation. It is not always possible to detect or deter such misconduct, and the precautions taken by Prescott to detect and prevent this activity may not be effective in all cases.



Uninsured Losses. The Fund will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as earthquakes or floods, may be unavailable, unavailable on economical terms, available in amounts that are less than the full market value or replacement cost of underlying properties or subject to a large deductible. There can be no assurances that the particular risks that are currently insurable will continue to be insurable on an economically affordable basis. Because the Fund is a pooled investment fund, all Fund assets may be at risk in the event of an uninsured liability to third parties.

Use of Investment Vehicles. The Fund may use various Special Purpose Vehicles (“SPVs”) and other investment vehicles in connection with its investment program to hold the Fund’s investments, which may involve additional costs of formation, structuring, and operating such entities in a manner that provides similar economic terms, management terms, and the liability protection afforded by investments made through the Fund.

Expedited Transactions. Investment analyses and decisions by Prescott may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to Prescott at the time of an investment decision may be limited, and Prescott may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural, or environmental matters, zoning regulations, or other local conditions affecting an investment. Prescott may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with typical commercial or customary practice. Therefore, no assurance can be given that Prescott will have knowledge of all circumstances that may adversely affect an investment. In addition, Prescott may rely upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will accurately evaluate such investments and Prescott may incur liability as a result of such consultants’ actions.

Risks of Environmental Liabilities. Under various laws, ordinances, and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances and other environmental pollutants released on, about, under, or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances or other environmental pollutants. The presence of hazardous substances or other environmental pollutants, or the failure to remediate hazardous substances or other environmental pollutants properly, may adversely affect the owner’s ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to cleanup actions brought by governmental agencies and private parties, the presence of hazardous substances or other environmental pollutants on a property may lead to claims of personal injury, property damage, or other claims by private plaintiffs. Environmental liabilities with respect to a specific real estate asset may exceed the value of such asset, and under certain circumstances, subject the other assets of the Fund to such liabilities.

Reliance on the Investment Manager. Prescott will be responsible for the management of the Fund’s investments, and Fund investors will not be able to make any investment or other decisions on behalf of the Fund. In addition, Prescott may not yet have identified or hired all the personnel who will be employed in connection with the Fund. The investment and asset management industry is intensely competitive, and other industry participants may from time to time seek to recruit Prescott’s investment professionals and other employees away from Prescott.



The ultimate success of the Fund is substantially dependent on the Principals. Should any of the Principals become incapacitated or in some way cease to participate in the management of the Fund, the Fund's performance could be adversely affected.

No Market for Fund Interests. The Fund's investors' interests in the Fund will, subject to certain limited exceptions, not be transferable without the consent of the General Partner and will be affected by restrictions on re-sales imposed under federal, state, and foreign securities laws. There is currently no public market for interests in the Fund. Furthermore, the Fund's governing documents will prohibit transfers to parties that do not meet investor requirements or that would lead to interests in the Fund being considered traded on an established securities market or readily tradable on a secondary market (or its substantial equivalent). Accordingly, no public market for interests in the Fund is intended, or is likely, to develop.

Default or Excuse. If a Fund investor defaults on its obligation to make required capital contributions, it may be difficult for the Fund to make up the shortfall from other sources. The other Fund investors may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default or excused investment by one or more Fund investors could have an extremely deleterious effect on the Fund, its assets, and the interests of the other Fund investors.

Consequences of Default. The failure of a Fund investor to make required contributions within a specified period of time and in accordance with the Fund's governing documents will be an event of default under the Fund's governing documents. Upon an event of default, and notice and time to cure, certain adjustments may be made to the ownership interests of a defaulting Fund investor, or other actions may be taken in equity or at law, as detailed in the Fund's governing documents.

Risk of Dilution. The Fund may continue to raise funds and hold subsequent closings for up to nine (9) months following the initial closing. Fund investors admitted at subsequent closings will participate in existing investments of the Fund, diluting the interests of the existing Fund investors therein. Although Fund investors admitted in a subsequent closing will contribute their pro rata share of net previously funded commitments as well as an admission interest charge, there can be no assurance that this payment will reflect the value of their pro rata share of the Fund's existing investments if such investments were sold (or could be sold) as of the date of such subsequent closing.

Tax Liability. Fund investors will be required to take into account their allocable shares of the Fund's items of income, gain, loss, deduction, and credit, without regard to whether they have received or will receive any distributions from the Fund. Thus, each Fund investor will be taxed on their distributive share of the taxable income of the Fund regardless of whether such Fund investor receives any actual cash distributions from the Fund. Accordingly, a Fund investor's tax liability for any taxable year associated with an investment in the Fund may exceed (and perhaps to a substantial extent) the cash distributed to that Fund investor during the taxable year.

The General Partner will represent the Fund at any tax audit as the "tax matters partner" and, after December 31, 2017, as its partnership representative. In such capacity, the General Partner has considerable authority to make decisions affecting the tax treatment and procedural rights of the Fund investors. Adjustments by the IRS of the Fund's items of income, gain, loss, deduction or expense could change a Fund investor's U.S. federal income tax liabilities and possibly require the filing of amended returns.



Withholding Taxes. To the extent that the Fund is required to withhold and pay certain amounts to taxing authorities on behalf of or with respect to investors in the Fund (i) if the amount required to be withheld or paid by the Fund on behalf of or with respect to a Fund investor exceeds the amount available for distribution to such Fund investor, such Fund investor will be required to pay such amount to the Fund; and (ii) each Fund investor will indemnify the Fund and the General Partner, and hold them each harmless, for any liability with respect to taxes, penalties, or interest required to be withheld or paid to any taxing authority by the Fund or the General Partner.

Possible U.S. Tax Legislative Changes. A number of items of legislation have been proposed in the past that could significantly alter certain of the U.S. federal income tax consequences of an investment in the Fund. It is uncertain whether any such proposed legislation (or other legislation that would impact the Fund) will be enacted. Prospective investors should consult their own tax advisors regarding proposed legislation.

Unrelated Business Taxable Income. The Fund is under no obligation to take any steps to mitigate the amount of unrelated business taxable income (“UBTI”) incurred by the Fund from its investment activities and, as a result, there can be no assurance that the Fund’s investments will not generate UBTI, which in some cases may be substantial. Specifically, the Fund may borrow money for investment purposes or otherwise generate UBTI. No assurance can be given that future legislation, administrative rulings, or court decisions will not adversely affect the operation of the Fund or an investment by a Fund investor in the Fund. A potential tax-exempt investor must consult with its tax advisors with respect to the allocation of UBTI from the Fund.

Legislation and Administrative Regulations. Laws and regulations relating to the investment industry substantially affect the operation of the Fund. While it is not possible for Prescott to predict future legislation or administrative regulations with any certainty, recent proposals in the United States and elsewhere relating to activities of the type in which the Fund may engage, if enacted, could result in the significant modification of existing contracts and adversely affect the value of the Fund’s investments. Such regulations may, in essence, require (directly or indirectly through market or political pressure) the Fund to revise existing loan agreements and other contracts, even if such revisions are detrimental to the Fund or its investment program. No assurance can be given that future legislation or administrative regulations will not adversely affect the operation of the Fund or an investment by a Fund investor in the Fund.

Cyber Security Risk. With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and are not limited to, gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

Regulatory Risks. There is no assurance that the Fund, its General Partner and Prescott will be able to: (i) obtain all required regulatory approvals not yet acquired, or that may need to be acquired in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operations of a portfolio company, impede the development of real estate



assets, delay the completion of a previously announced acquisition or sale to third parties, or otherwise result in additional costs to a portfolio company, or other investment, and in turn the Fund. The investment strategy of the Fund is subject to complex, changing, and sometimes competing legal, tax, and regulatory regimes, and there is a possibility that new or changing regulatory requirements could potentially have adverse effects on the Fund.

Limits of Risk Disclosures. The above discussion covers certain risks associated with an investment in the Fund, but is not, nor is it intended to be, a complete list or explanation of all risks involved in an investment in the Fund. Investors should read the entire governing documents of the Fund and consult with their own advisers before deciding whether to invest in the Fund. An investment in the Fund should only be made by investors who understand the nature of the investment, do not require liquidity in the investment and can bear the economic risks of the investment including loss of principal.

Limits of Risk Disclosures. The above discussion covers certain risks associated with an investment in the Fund, but is not, nor is it intended to be, a complete list or explanation of all risks involved in an investment in the Fund. Investors should read the entire governing documents of the Fund and consult with their own advisers before deciding whether to invest in the Fund. An investment in the Fund should only be made by investors who understand the nature of the investment, do not require liquidity in the investment and can bear the economic risks of the investment including loss of principal.



Item 9 Disciplinary Information

This Item requests information relating to legal and disciplinary events in which Prescott or any supervised persons, as defined by the Advisors Act, have been involved that are material to Client's or prospective Client's evaluations of Prescott's advisory business or management. There is no reportable material legal or disciplinary events related to Prescott or any of its supervised persons. In the ordinary course of Prescott's business, Prescott, its affiliates and employees have not in the past been subject to any formal or informal regulatory inquiries, subpoenas, investigations, legal or regulatory proceedings involving the SEC, or any other regulatory authorities, including private parties and self-regulatory organizations (SRO).



Item 10 Other Financial Industry Activities and Affiliations

Affiliated Broker-Dealers

Prescott and its related persons are not registered, nor has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Prescott has no existing or pending affiliations with a broker-dealer or a registered representative of a broker-dealer.

Affiliated CPO and/or CTA

Prescott and its related persons are not registered, nor has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Prescott has no existing or pending affiliations with a futures commission merchant, commodity pool operator, a commodity trading advisor.

However, Prescott and Prescott Strategies Fund I GP, LLC, the general partner to an affiliated (sponsored) private pooled investment vehicle, rely on an exemption from registration under CFTC Rule 4.13(a)(3) with the Commodity Futures Trading Commission ("CFTC") and therefore Prescott is exempt from registration as a commodity pool operator ("CPO").

The General Partner (*i.e.*, Prescott Strategies Fund I GP, LLC) qualifies for the exemption under CFTC Rule 4.13(a)(3) on the basis that, among other things (a) each Fund investor is either: (i) an "accredited investor" as defined under SEC rules, (ii) a trust formed by an "accredited investor" for the benefit of a family member, (iii) a natural person who is a "qualified eligible person" as defined in CFTC Rule 4.7(a)(2) or (iv) a non-natural person that is a "qualified eligible person" as defined under CFTC Rule 4.7; and (b) the Fund meets one of the following two tests: (i) the aggregate initial margin and premiums does not exceed 5% of the liquidation value of the Fund's portfolio, or (ii) the aggregate net notional value of positions does not exceed 100% of the liquidation value of the Fund's portfolio.

Prescott is exempt from registration with the CFTC as a commodity trading advisor ("CTA") pursuant to CFTC Rule 4.14(a)(8). Therefore, unlike a registered CTA, Prescott is not required to deliver a disclosure document to clients. The exemption under CFTC Rule 4.14(a)(8) requires Prescott to file a claim of exemption with the National Futures Association ("NFA"), to maintain certain books and records, and to submit to such special calls as the CFTC may make to demonstrate eligibility for and compliance with the applicable criteria for exemption under rule 4.14(a)(8).

The CFTC does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of an offering memorandum. Consequently, the CFTC has not reviewed or approved the Fund's offering or any offering memorandum for the Fund or any of its subsidiaries that may be defined as commodity pools.



Relationship or Arrangements with Affiliates and/or Related Persons

Affiliated General Partners

Through common control, Prescott is affiliated with PGS I GP, LLC and Prescott Strategies Fund I GP, LLC. PGS I GP, LLC serves as the ultimate general partner to Prescott Strategies Fund I GP, LLC who serves as the general partner to Prescott's affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP.

As stated in Item 4 of this Brochure, Prescott Strategies Fund I GP, LLC (*i.e.*, the General Partner) has engaged Prescott to provide origination, acquisition, asset management, and other administrative services to the Fund, pursuant to an Investment Management Agreement, which delegates exclusive discretionary investment management authority to Prescott. Accordingly, the General Partner does not provide any investment advisory services with respect to the Fund.

Prescott Realty Group, Inc.

As stated in Item 4 of this Brochure, Prescott, through common control, is affiliated with Prescott Realty Group, Inc. (*i.e.*, PRG), a Texas corporation that is registered with the Texas Real Estate Commission as a corporate real estate broker. PRG is a full-service commercial real estate investment and operating company that provides property management, construction management, leasing, asset management and loan servicing. Prescott's affiliate, Prescott Strategies Fund I GP, LLC, who serves as the general partner to Prescott's affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP (*i.e.*, the Fund), has engaged PRG to provide asset management, property management, and development services with respect to the Fund's equity and real estate investments. For additional details on these services and fees, please refer to the Fund's governing documents. In addition, Prescott currently shares offices and various employees with PRG. Messrs. Judson L. ("Jud") Pankey and Vance E. Detwiler respectively own 76% and 24% of PRG.

The fees charged by PRG may create an incentive for Prescott to manage the Fund's investments in a manner that maximizes such fees, which may reduce the amount of income and profits made available to the Fund. Prescott and the Principals will benefit from PRG's relationships with the Fund and their receipt of fees from the Fund. Fund investors (other than those Fund investors affiliated with Prescott) will not participate in any increase in the value of PRG. Conflicts may arise in determining whether PRG has performed its respective obligations to the Fund and/or whether PRG or any related parties are entitled to be indemnified pursuant to the provisions contained in the Fund's governing document or any other applicable agreement.

In general, Prescott expects to conduct its activities in a manner that is separate and independent from the activities of PRG. However, certain of Prescott's principals and employees, including Messrs. Pankey and Detwiler, provide similar services and engage in various activities with respect to PRG's clients. PRG could from time to time invest in the same financial instruments or engage in the same or similar investment strategies as Prescott and/or the Fund. These activities could conflict with the transactions and strategies employed by Prescott and its employees and affiliates in managing the Fund and could raise various other actual or potential conflicts of interest. Moreover, the time and effort of Prescott's Principals, portfolio managers and various employees will not be devoted exclusively to Prescott's business or the business of the Fund but will be allocated among Prescott, the Fund, PRG and other affiliates of Prescott.



Dyck O'Neal, Inc.

As stated in Item 4 of this Brochure, Prescott, through common control, is affiliated with Dyck O'Neal, Inc. (*i.e.*, DONI), a Texas corporation that provides real estate investment management services, including acquisition, resolution, collection and servicing of first and second mortgages, judgments and promissory notes. Prescott's affiliate, Prescott Strategies Fund I GP, LLC, who serves as the general partner to Prescott's affiliated (sponsored) private pooled investment vehicle, Prescott Strategies Fund I, LP (*i.e.*, the Fund), has engaged DONI to provide debt collection, loan servicing, and restructuring consultation services with respect to the Fund's real estate debt investments. For additional details on these services and fees, please refer to the Fund's governing documents. In addition, Prescott currently shares offices and various employees with DONI. Messrs. Judson L. ("Jud") Pankey and Vance E. Detwiler respectively own 52% and 23% of DONI.

The fees charged by DONI may create an incentive for Prescott to manage the Fund's investments in a manner that maximizes such fees, which may reduce the amount of income and profits made available to the Fund. Prescott and the Principals will benefit from DONI's relationships with the Fund and their receipt of fees from the Fund. Fund investors (other than those Fund investors affiliated with Prescott) will not participate in any increase in the value of DONI. Conflicts may arise in determining whether DONI has performed its respective obligations to the Fund and/or whether DONI or any related parties are entitled to be indemnified pursuant to the provisions contained in the Fund's governing document or any other applicable agreement.

In general, Prescott expects to conduct its activities in a manner that is separate and independent from the activities of DONI. However, certain of Prescott's principals and employees, including Messrs. Pankey and Detwiler, provide similar services and engage in various activities with respect to DONI's clients. DONI could from time to time invest in the same financial instruments or engage in the same or similar investment strategies as Prescott and/or the Fund. These activities could conflict with the transactions and strategies employed by Prescott and its employees and affiliates in managing the Fund and could raise various other actual or potential conflicts of interest. Moreover, the time and effort of Prescott's Principals, portfolio managers and various employees will not be devoted exclusively to Prescott's business or the business of the Fund but will be allocated among Prescott, the Fund, DONI and other affiliates of Prescott.

Other Activities and Affiliations

From time to time, certain related persons of Prescott may serve as directors and officers of, and provide advice to, privately held or publicly traded companies in which Prescott's Clients may invest. Clients should be aware that the receipt of non-public information by Prescott's related persons regarding these companies could preclude Prescott from effecting discretionary transactions on behalf of Clients in certain securities of these issues.

In addition, Prescott may from time to time engage third-parties to provide certain consulting and strategic advisory services with respect to Prescott and/or its affiliates. In consideration of such services, Prescott may provide office space, administrative support and other benefits to such persons.

There are inherent conflicts of interest when a related person provides services to an adviser and its clients, in that such arrangements may not be conducted at "arm's length" and that Prescott may have an incentive to favor a related person over an independent third party. Prescott generally does not recommend non-affiliated investment advisers to its Clients.



Item 11 Code of Ethics

Prescott maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and has adopted policies and procedures described in its code of ethics. The code of ethics applies to each employee of Prescott and any other “access person” as defined under the Advisers Act. It is designed to ensure compliance with legal requirements of Prescott’s standard of business conduct.

A complete copy of Prescott’s code of ethics (“Code of Ethics”) is available upon request to Clients or prospective clients.

The Code of Ethics is based upon the premise that all Prescott personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory services. The Code of Ethics requires all personnel to: (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of Prescott; (3) observe Prescott’s personal trading policies so as to avoid “front-running” and other conflicts of interests between Prescott and its Clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by Prescott’s Chief Compliance Officer, and that personnel who violate the Code of Ethics are subject to sanctions by Prescott, up to and including termination.

Standards of Conduct: Prescott and its access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained in the course of their employment and bring any risk issues, violations, or potential violations to the attention of the Chief Compliance Officer. Access persons are expected to deal with Clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and Prescott or Client.

Ethical Business Practices: Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or government employees are prohibited except for political contributions approved by Prescott’s Chief Compliance Officer. Prescott seeks to outperform its competition fairly and honestly and seeks competitive advantages through superior performance not illegal or unethical dealings. Access persons are strictly prohibited from (i) participating in online blogging and communication with the media, unless approved by the Chief Compliance Officer, and (ii) spreading of false rumors pertaining to any publicly traded company.

Confidentiality: Employees must maintain the confidentiality of Prescott’s proprietary and confidential information, and must not disclose that information unless the necessary approval is obtained. Prescott has a particular duty and responsibility, as an investment adviser, to safeguard Client information. Information concerning the identity and transactions of Clients is confidential, and such information will only be disclosed to those employees and outside parties who may need to know it in order to fulfill their responsibilities.

Gift and Entertainment Policy: Access persons are permitted, on occasion, to accept gifts and invitations to attend entertainment events. When doing so, however, employees should always act in Prescott’s best interests and that of its Clients and should avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of Prescott’s business relationship. Under no circumstances may (i) gifts of cash or cash equivalents be accepted or (ii) may any gifts be received in consideration or recognition of any services provided to or transactions entered into by, Client accounts.



Personal Trading

Personal Trading Policy: In general, no access person may acquire, directly or indirectly, any beneficial ownership in any “reportable security” in the real estate industry sectors without first obtaining the prior written approval of the Chief Compliance Officer or his delegate. Access persons who violate the personal trading policy are reprimanded in accordance with the sanctions provisions outlined in the Code of Ethics. Personal securities transactions are reviewed by the Chief Compliance Officer or his delegate for compliance with the personal trading policy and applicable SEC rules and regulations.

Prescott’s principals and employees and certain of their affiliates may from time to time purchase or sell for their own personal accounts financial instruments that are recommended to, or purchased or sold on behalf of Clients’ accounts. Prescott’s principals and employees may also take investment positions in their personal accounts that are different from, or contrary to, those taken by Client accounts; however, they generally are not permitted to trade ahead of Client accounts. Prescott’s principals and employees may frequently engage in the purchase and sale of public and private securities and other financial instruments for their own personal accounts, including financial instruments that are recommended to, owned by or purchased or sold on behalf of Client accounts. The personal trading activities of Prescott’s principals, employees and affiliates may raise various actual and potential conflicts of interest. Prescott has implemented various compliance policies and procedures, including personal trading and reporting policies, in an attempt to reduce, mitigate or address any such actual or potential conflicts of interest. For example, as noted above, all access persons generally are required to obtain the prior written consent of the Chief Compliance Officer before buying or selling any “reportable security” in the real estate industry sectors. The percentage of time spent by Prescott’s principals on personal trading does not, in the case of any such person, exceed 5% of such person’s professional time.

Whenever the Chief Compliance Officer determines that one of Prescott’s affiliates or employees is in possession of material non-public information regarding an issuer, such issuer may either be placed on a restricted list or a watch list. When a company is placed on a watch list or restricted list, all employees are prohibited from personal trading in securities of those companies.

Prohibition against Insider Trading: Prescott forbids any access person from trading, either personally or on behalf of others, including Clients advised by Prescott, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as “insider trading”. The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

Reporting Requirements: In compliance SEC rules, access persons are required to disclose all of their personal brokerage accounts and holdings within ten (10) days of initial employment with Prescott, within thirty (30) days after the end of any calendar quarter in which any new personal brokerage accounts were established during the quarter and annually thereafter. Additionally, the last day of the month following each quarter-end, all access persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.



Privacy Policy: Prescott has adopted a privacy policy that explains the manner, in which Prescott collects, utilizes and maintains nonpublic personal information about Clients. Prescott recognizes and respects the privacy concerns of their potential, current and former Clients. Prescott is committed to safeguarding this information. As a member of the financial services industry, Prescott will provide this Privacy Policy for informational purposes to Clients and employees and will distribute and update it as required by law. The Privacy Policy is also available to upon request.

Collection of Information and Disclosure of Nonpublic Personal Information: To provide Clients with effective service, Prescott may collect several types of nonpublic personal information about Clients, including: (i) information from forms that Clients may fill out, such as subscription forms, questionnaires and other information provided by Clients in writing, in person, by telephone, electronically or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications; (ii) information Clients may give orally; (iii) information about transactions within Prescott, including account balances, investments and withdrawals; (iv) information about the amount Clients have invested, such as initial investment and any additions to and withdrawals from an investment in the Clients; and (v) information about any bank accounts Clients may use for transfers to or from separately managed accounts (if applicable).

Disclosure of Nonpublic Personal Information: Prescott does not sell or rent Client information. Prescott uses this information to conduct business with its Clients: (i) to develop or enhance its products and services; (ii) to understand the financial needs of its Clients so that Prescott can provide such Clients with quality products and superior service; and (iii) to protect and administer its Clients' records, accounts and funds. Prescott does not disclose nonpublic personal information about its Clients to nonaffiliated third parties or to affiliated entities, except as permitted or required by law. For example, Prescott may share nonpublic personal information in the following situations: (i) to service providers in connection with the administration and servicing of Prescott; this may include attorneys, accountants, auditors and other professionals. Prescott may also share information in connection with the servicing or processing of Client transactions; (ii) to affiliated companies in order to provide Clients with ongoing personal advice and assistance with respect to the products and services Clients have purchased through Prescott and to introduce Clients to other products and services that may be of value to such Clients; (iii) to respond to a subpoena or court order, judicial process or regulatory authorities; (iv) to protect against fraud, unauthorized transactions (such as money laundering), claims or other liabilities; and (v) upon consent of a Client to release such information, including authorization to disclose such information to persons acting in a fiduciary or representative capacity on behalf of the Client.

Protection of Client Information: Prescott's policy is to require that all employees, financial professionals and companies providing services on its behalf keep Client information confidential. Prescott maintains safeguards that comply with federal standards to protect Client information. Prescott restricts access to the personal and account information of Clients to those employees who need to know that information in the course of their job responsibilities. Third parties with whom Prescott shares Client information must agree to follow appropriate standards of security and confidentiality. Prescott's privacy policy applies to both current and former Clients. Prescott may disclose nonpublic personal information about a former Client to the same extent as for a current Client.



Changes to Privacy Policy: Prescott may make changes to its privacy policy in the future. Prescott will not make any change affecting any Client without first sending to that Client a revised privacy policy describing the change.

Potential Conflicts

Prescott and its affiliates and other related parties engage in a broad spectrum of investment activities. In the future, there may arise instances where the interests of Prescott, the General Partner, and other related parties conflict with the interests of the Fund and its investors. The following discussion sets forth certain potential conflicts of interest and does not describe all conflicts that may arise.

Any of the foregoing potential conflicts of interest will be discussed and resolved on a case by case basis. Prescott's determination as to which factors are relevant, and the resolution of such conflicts, will be made using its best judgment, but in Prescott's sole discretion. In resolving conflicts, Prescott will take into consideration the interests of the Fund and its investors, the circumstances giving rise to the conflict and applicable laws.

Other Investment Activities

Prior to the earlier of (i) the expiration or termination of the investment period³, (ii) the termination of the Fund, or (iii) such time as at least 75% of the Fund's total commitments have been invested or committed for investment, Prescott shall refer to the Fund each investment sourced by Prescott and its affiliates that is consistent with the investment objectives of the Fund; provided that the foregoing requirement shall not apply with respect to any investment (a) that is related to a legacy investment of Prescott or its affiliates (including certain programmatic or continuing programs that are not within the scope of the Fund's investment program), (b) that Prescott determines would be inappropriate for the Fund's investment program (e.g., due to the size of the investment) or (c) for which the advisory committee has waived the referral requirement. Conflicts may arise in determining whether an investment opportunity is consistent with the investment objectives of the Fund or related to a legacy investment of Prescott (and, therefore, whether such investment opportunity will be offered to the Fund).

Prescott, the General Partner, the Principals, and their respective affiliates (*i.e.*, PRG and DONI) may in the future acquire other real estate investments or organize other investment funds, provided that they will not hold the first closing of any other fund with similar objectives and operations until such time as at least 75% of the Fund's total commitments have been invested or committed for investment or the investment period has expired. Instances may arise where Prescott, the General Partner, the Principals, or their respective affiliates are investors in competing investments or in other real estate investments. In addition, such persons may have vested economic interests in numerous tracts of real estate adjacent to or surrounding certain investments of the Fund. Efforts to maximize the value of such other economic interests could adversely affect the value of the Fund's investments or conflict with the interests of the Fund and the Fund's investors.

³ The "investment period" is three (3) years from the Fund's final closing. The initial closing will be as soon as practicable once the Fund has obtained \$50 million in commitments. The Fund may continue to raise funds and hold additional closings for up to twelve (12) months following the initial closing. The date the last closing is held is the final closing.



Conflicts Related to Prescott's Relationships with Third Parties

Prescott may work with institutional investment consultants and such consultants may also provide services to Prescott and its affiliates. Consultants may provide transaction advisory services to related parties and related parties may attend conferences sponsored by consultants. Prescott also may be hired to provide investment management or other services to an institutional investment consultant that works with a Client, which may create conflicts.

Related parties may in-source or out-source to third-parties certain processes or functions, which may give rise to conflicts. There may be conflict when negotiating with third-party service providers if related parties bear operational expenses of various Clients to the extent that a given fee structure would tend to place more expense on Clients for which related parties have a greater entitlement to reimbursement or less expense on Clients for which related parties have lesser (or no) entitlement to reimbursement. Related parties may provide information about a Client's portfolio positions to unrelated third parties to provide additional market analysis and research to related parties and they may use such analysis to provide investment advice to other Clients.

Related parties may purchase information (such as periodicals, conference participation, papers, surveys) from professional consultant firms, and such firms may have an incentive to give favorable evaluations of related parties to their clients.

Material Non-Public Information

There are generally no ethical screens or information barriers among Prescott and certain affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. If Prescott, any of its personnel or affiliates were to receive material non-public information about an investment or issuer, or have an interest in causing a Client to acquire a particular investment, Prescott may be prevented from causing the Client to purchase or sell such asset due to internal restrictions imposed on Prescott. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in Prescott, or one of its investment professionals, buying or selling an asset while, at least constructively, in possession of material non-public information. In addition, while Prescott and certain affiliates generally operate without information barriers on an integrated basis, such entities could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, Prescott's ability to operate as an integrated platform could also be impaired, which would limit Prescott's access to personnel of its affiliates and potentially impair its ability to manage Client investments.



Approach to Other Potential Conflicts

Various parts of this Brochure discuss potential conflicts of interest that arise from Prescott's asset management business model. Prescott discloses these conflicts due to the fiduciary relationship with its investment advisory Clients. As a fiduciary, Prescott owes its investment advisory Clients a duty of loyalty. This includes the duty to address, or at minimum disclose, conflicts of interest that may exist between different Clients; between Prescott and Clients; or between its employees and its Clients. Where potential conflicts arise, Prescott will take steps to mitigate, or at least disclose, them. Conflicts that Prescott cannot avoid (or chose not to avoid) are mitigated through written policies that Prescott believes protect the interests of its Clients as a whole. In these cases – which include issues such as personal trading and Client entertainment – regulators have generally prescribed detailed rules or principles for investment firms to follow. By complying with these rules, using robust compliance practices, Prescott believes that it has handled these conflicts appropriately. These interactions are not static; Prescott's business is continually evolving and changes in Prescott's activities can lead to new potential conflicts. Prescott reviews its policies and procedures on an ongoing basis to evaluate their effectiveness and update them as appropriate.



Item 12 Brokerage Practices

Counterparty Selection

Prescott seeks to trade assets on behalf of its Clients in a manner that is fair and equitable to all Clients, and to exercise diligence and care throughout the transaction process. The majority of the Funds' assets are not market-traded instruments and even in the limited circumstances where the Fund invests in market-traded instruments, often these are unique assets that are only available from one or a limited number of counterparties (*i.e.*, there is no meaningful market). The investment counterparty is typically chosen as part of the Investment Committee's approval of the investment. Therefore, the traditional best execution concepts that apply to market-traded instruments do not easily apply to the majority of the assets that Prescott trades on behalf of its Clients.

Generally, Prescott engages real estate brokers to assist in property acquisitions and dispositions. It is the real estate industry custom that real estate brokers are selected and compensated by the property seller. Therefore, Prescott's real estate broker selection process is typically only implemented on dispositions. In those cases, Prescott will solicit opinions of value from multiple local real estate brokers and will request proposals for the sales marketing campaigns from each. Prescott will select the real estate broker most appropriate for the particular transaction after considering cost, experience, depth of contacts, and likelihood of execution. The real estate broker commissions are typically based on a percentage of the executed sale price. These real estate brokerage fees are borne by the Fund, not directly by Prescott. Prescott does not permit Clients to direct brokerage, nor does Prescott routinely recommend, request or require that a Client direct Prescott to execute transactions through specified real estate broker-dealers.

The sales transactions for which real estate brokers are engaged are typically one-time, independent transactions. No other compensation is typically offered or expected. The nature of the real estate transactions to which Prescott is typically a party tend to be singular or very low volume.

In addition, Prescott may sometimes engage a mortgage broker to facilitate mortgage debt procurement. The mortgage broker selection process is similar to the real estate broker selection process described above. Prescott will solicit proposals from multiple mortgage brokers and make a selection based on the best likely execution (in terms of mortgage proceeds, rate, and any other pertinent factors). Mortgage brokers receive commissions that are typically based on a percentage of the mortgage proceeds. These brokerage fees are borne by the Fund, not directly by Prescott.

In those limited circumstances where Prescott selects broker-dealers or other counterparties for transactions in market-traded instruments (including hedging services) on behalf of its Clients, Prescott will do so consistent with its duty of best execution. Prescott defines "best execution" as seeking to obtain the best terms for its Clients under the particular circumstances occurring at the time of a transaction and taking into account the overall objective for the investment to which the transaction relates. It is the policy of Prescott to seek to achieve the best qualitative execution under the circumstances. Best execution does not require Prescott to obtain the lowest possible price, commission or transaction cost. Transactions may involve specialized services or considerations (such as the type of assets the Client is seeking to purchase or sell, or the availability of financing opportunities to the applicable Client) that must be considered when selecting a counterparty, and thereby entail higher markups or commissions than would be the case with transactions that do not involve any specialized services or considerations. Furthermore, because Prescott's Clients typically invest in assets that may be purchased from only one or a small number of counterparties, Prescott may not be able to obtain terms that are as favorable as those that may be available in a market with more potential counterparties.



In seeking best execution, Prescott may consider the full range and quality of a counterparty's services, including, among other things, one or more of the following factors, as applicable:

- the counterparty's ability to present Prescott with a transaction that meets the investment objectives of the relevant Client for whom the transaction is executed, including a counterparty's ability to source unique assets that may be held by a limited number of entities or by a single entity;
- the best price possible under the particular circumstances of the transaction (for example, for a sale transaction, Prescott may determine that the best price may be obtained through a competitive auction process open to a number of counterparties or, alternatively, Prescott may determine that the best price may be achieved through price negotiations with a limited number of counterparties);
- the ability of the counterparty to provide financing on the assets purchased, including either bridge financing until permanent financing can be obtained or long-term financing at inception on terms which Prescott believes are in the best interests of the relevant Client (which considerations may include, amongst others, rate, term, recourse and asset management flexibility) (for a sale transaction, Prescott may take any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs into consideration);
- the counterparty's credit terms prior to requiring the posting of margin;
- the counterparty's ability to commit capital needed to execute the transaction;
- the ability and history of the counterparty to maintain confidentiality of a transaction (or prior transactions);
- the ability of the counterparty to execute quickly and the ability to commit capital and/or financing quickly in light of the size of the transaction;
- the reliability, integrity, reputation and execution capability of the counterparty for effecting transactions in light of the size and difficulty of executing the order;
- the financial strength and creditworthiness of the counterparty; and
- the counterparty's specialized knowledge or experience in a particular market.

Research, Other Soft Dollar Arrangements and Client Referrals

Generally, Prescott does not receive proprietary research and other services from counterparties. However in limited circumstances, Prescott may receive proprietary research and other services from certain counterparties, which Prescott may use to service the Fund. Prescott does not, however, cause the Fund to pay increased commissions in order to obtain the research and services provided by such counterparties, and Prescott does not consider the provision of such research and services in the recommendation or selection of counterparties. When identifying potential transactions and selecting counterparties for those transactions, Prescott does not consider whether a potential counterparty provides referrals of investors to the Fund. Prescott may, however, as discussed above, select a broker-dealer based on its ability to source investments for the Fund. Prescott does not enter into commission sharing agreements with broker-dealers relating to transactions executed for the benefit of the Fund, or participate in directed brokerage arrangements. Further, Prescott will not accept directed brokerage instructions from the Fund or their underlying investors.

Currently, Prescott does not maintain any broker-dealer trading accounts and does not receive any "soft dollar benefits" from broker-dealers for the purchase and sales of securities for its Clients.



Other Third Parties

In addition to transactions with banks and broker-dealers, Prescott may engage other service providers on behalf of the Fund with respect to the execution of transactions, such as lenders and real estate brokers and agents. These service providers are subject to similar selection criteria as broker-dealers, but may also be selected based on the geographic location of the assets and the service provider's experience with the type of assets involved.

Trade Errors

Although Prescott seeks to exercise diligence and care when trading assets on behalf of the Fund, errors may occur during the trading process. Prescott attempts to minimize trade errors by promptly reconciling confirmations with trade tickets or similar transaction documentation. To the extent that a trade error occurs, Prescott works to correct the error as soon as practicable and in such a manner that any resulting loss is minimized. If a trade error results in a gain, the Fund will retain the gain. As described in the Fund's governing documents, any loss caused by a trade error will be borne by the Fund unless the error is the result of bad faith, gross negligence or willful misconduct by Prescott. Prescott does not use commitments of future brokerage business to compensate any broker-dealer for absorbing the cost of a trade error. If, however, to the extent Prescott can demonstrate that a counterparty was partly or entirely responsible for a trade error, Prescott may ask that counterparty to bear part or all of the cost of the error.



Item 13 Review of Accounts

Prescott's Investment Committee has the responsibility to exercise and maintain prudent supervision and control of the Fund's portfolio of investments. As stated in Item 8 of this Brochure, the Investment Committee is responsible for overseeing the investment process from the origination of each investment transaction (including deal sourcing, underwriting and acquisition), through asset management and ultimately the realization of the investment. The Investment Committee continuously reviews and ensures the investment policies, guidelines, and objectives of the Fund's general investment strategy are achieved and attained per the Fund's governing documents. The Investment Committee maintains prudence and effectiveness of each portfolio investment of the Fund and formulates and oversees the investment policies and management of the Fund's assets, and periodically reviews investment strategies and investment performance. In carrying out its duties the Investment Committee provides recommendations on investment opportunities through a stringent due diligence process to identify investment opportunities that meet the Fund's stated investment objective and goals; reviews individual investment performance and recommends changes when appropriate; and works closely with staff to ensure that the investment objectives are being met as stated in the Fund's governing documents. In monitoring the Fund's portfolio of investments, the Investment Committee ensures (i) the management of investments and capital actions are consistent and comply with attainment of the Fund's investment policy, objectives and strategy goals, and (ii) the Fund's portfolio is in compliance with legal and regulatory requirements. Please see Item 8 of this Brochure for more information regarding Prescott's investment management process.

The Investment Committee is comprised of Messrs. Judson L. ("Jud") Pankey, as Managing Principal, Vance E. Detwiler, as President, Richie L. Butler, as Senior Managing Director, and Steven A. Abney, as Chief Financial Officer and Chief Compliance Officer. The Investment Committee meets frequently, if not daily, by meeting in person, telephone conference, or other interactive electronic communication to discuss market conditions, portfolio analysis, and investment transaction matters.

Nature and Frequency of Reporting

Prescott will furnish to all Fund investors within 120 days after the Fund's fiscal year end an audited, written annual report, which typically includes financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), a report of the activities of the Fund during the year, a schedule and description of the investments owned, a description of investments acquired or disposed of during the year. The annual report is prepared and the delivery of it are intended to comply with the SEC's custody rule, as described in more detail below in Item 12 of this Brochure. In addition, Prescott will cause annually the delivery of tax information necessary for the completion of income tax returns. On a quarterly basis, each Fund investor will be furnished with unaudited financial statements of the Fund. Fund investors will also receive descriptive information concerning the Fund's investments on a quarterly basis.

Prescott also generally holds annual or semi-annual limited partnership meetings to review with Fund investors the investments made on their behalf.



Item 14 Client Referrals and Other Compensation

Prescott does not receive any economic benefits, including sales awards or prizes, from a non-client for providing investment advice or other advisory services to the Fund. Prescott does not have advisory clients other than the Fund. Neither Prescott nor its related persons directly or indirectly compensate any third party for advisory client referrals.

However, Prescott may enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors to the Funds for compensation. In the event Prescott desires to engage a placement agent or third party marketer to solicit prospective investors in the Fund, Prescott generally will be required to enter into a written agreement to which Prescott and the placement agent or marketer are parties ("Placement Agent Agreement"). The Placement Agent Agreement will (among other things) include the following:

- A representation that the placement agent is (and shall remain) registered as a broker-dealer with the SEC and a member in good standing of FINRA;
- A representation that neither the placement agent nor any director, executive officer or other officer involved in the Fund offering is subject to any disqualifying event, as described in Rule 506(d) of Regulation D under the Securities Act;
- A certification from the placement agent that it is not a person (i) subject to an SEC order issued under Section 203(f) of the Advisers Act; (ii) convicted within the previous ten (10) years of any felony or misdemeanor involving conduct described in Section 203(e)(2)(A)-(D) of the Advisers Act; (iii) who has been found by the SEC to have engaged, or has been convicted of engaging, in any of the conduct specified in paragraphs (1), (5), or (6) of Section 203(e) of the Advisers Act; or (iv) is subject to an order, judgment, or decree described in Section 203(e)(4) of the Advisers Act;
- A description of the placement and marketing activities to be engaged in by the placement agent on behalf of Prescott and the Fund and the compensation to be received by the placement agent;
- An undertaking by the placement agent to perform its duties under the agreement in a manner consistent with Prescott's instructions and the provisions of the Advisers Act and the rules thereunder; and
- An undertaking by the placement agent to, at the time of any placement activities, provide the prospective Fund investor with a current copy this Brochure and current copies of the Fund's offering documents.

As stated above, currently Prescott or its related persons do not directly or indirectly compensate any third party for advisory client referrals. In the event Prescott desires to engage a third-party solicitor in the future to solicit prospective advisory clients, such third-party client solicitation arrangements will be made in compliance with Rule 206(4)-3 of the Advisers Act (the "Cash Solicitation Rule"), which requires that, among other things, compensation to a solicitor be made pursuant to a written agreement and, for third-party solicitor arrangements, that the solicitor provide to each person solicited for Prescott's advisory services, a written disclosure statement (the "Solicitor's Disclosure Statement") and current copy this Brochure.



Item 15 Custody

While it is Prescott's practice not to accept or maintain physical possession of any Fund assets, Prescott will be deemed, under Rule 206(4)-2 of the Advisers Act (the "Custody Rule"), to have custody of the assets of the Fund by virtue of its common control with the General Partner of the Fund.

In order to comply with the Custody Rule, Prescott utilizes the services of "qualified custodians" (e.g., banks) to hold and maintain all cash and securities of the Fund (except with respect to privately offered securities). In accordance with the Custody Rule, Prescott also (i) has engaged an independent public accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board ("PCAOB") to conduct annual audits of the Fund; and (ii) distributes audited annual financial statements of the Fund, prepared in accordance with GAAP, to all Fund investors within at least 120 days after the Fund's fiscal year end. Qualified custodians are not expected to provide account statements directly to investors in the Funds.



Item 16 Investment Discretion

Subject to the terms and conditions in the Fund's governing documents and pursuant to its Investment Management Agreement with the Fund, Prescott generally has discretionary power and authority to determine the types of securities to be bought or sold, as well as the amount to be bought or sold on behalf of the Fund. Prescott generally has authority to determine the counterparties to be used on behalf of the Fund and the negotiation of commission rates and other consideration to be paid by the Fund. Each investor in the Fund generally grants to Prescott or its affiliate a limited power of attorney to enable Prescott to execute the applicable partnership agreement and take certain other limited actions on its behalf and in connection with the operation of the Fund.



Item 17 Voting Client Securities

Due to the nature of investments in the Fund's portfolio, Prescott does not expect to vote on securities held in the Fund's portfolio of investments. However, if Prescott is called upon to vote proxies, it will vote such proxies in accordance with the proxy voting policies and procedures in Prescott's compliance manual. Pursuant to SEC rule 206(4)-6, Prescott has established policies and procedures to address proxy voting procedures and any conflicts of interests involved in a proxy vote between Prescott and its advisory clients. Prescott's proxy voting procedures are designed to ensure that proxies are voted in a manner that is in the best interest of the clients. Prescott will generally vote in favor of matters that follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and market practices. Prescott addresses conflicts of interest involved in a proxy vote through a three-step process of identifying potential conflicts of interest, determining material conflicts and establishing procedures to address material conflicts. Prescott may determine not to vote proxies in respect of securities of an issuer if it determines it would be in the advisory client's overall best interest not to vote. Clients may obtain copies of Prescott's proxy voting policies by contacting Prescott's Chief Compliance Officer, Mr. Steven A. Abney, at (214) 750-0009 or sabney@prescottadv.com.



Item 18 Financial Information

Prescott does not require or solicit prepayment of more than \$1,200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.

Prescott has discretionary authority or custody of Client funds or securities. There is no financial condition that is reasonably likely to occur that would impair Prescott's ability to meet contractual commitments to Clients. Prescott has not been the subject of a bankruptcy petition during the past ten years.

