

Form ADV Part 2A: Firm Brochure

Harbor Group International, LLC

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This brochure provides information about the qualifications and business practices of Harbor Group International, LLC (“HGI”). If you have any questions about the contents of this brochure, please contact Lucinda W. Klevecz, General Counsel & Chief Compliance Officer at 757-961-2032 or email lklevecz@harborg.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about HGI is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Any reference to Harbor Group International, LLC as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.

Item 2: Material Changes

This brochure has been updated from the last amendment dated March 2017 to include certain routine updates and other changes including, but not limited to, additional conflicts of interest.

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Item 4: Advisory Business

For purposes of this brochure, “HGI” means Harbor Group International, LLC, a Delaware limited liability company, and its relying advisers, HGGP Capital IX, LLC (“HGGP Capital IX”), HGGP Capital X, LLC (“HGGP Capital X”), HGGP Capital XI, LLC (“HGGP Capital XI”) and HGGP Capital XII, LLC (“HGGP Capital XII”), each a Virginia limited liability company, together (where the context permits) with its affiliated general partners and/or managers of each Fund (as defined below) and other affiliates that provide advisory services to, and/or receive advisory fees from, the Funds. Such affiliates are typically under common control with Harbor Group International, LLC, and/or may possess a substantial identity of personnel and/or equity owners with Harbor Group International, LLC. These affiliates may be formed for regulatory or other purposes in connection with the organization of the Funds, or may serve as general partners and/or managers of the Funds (the “General Partner(s)” and the “Manager(s)”).

The HGI real estate management and investment platform launched in the mid-1980s and the name Harbor Group International, LLC was adopted in 1998. Through a series of joint ventures and recapitalizations, the business evolved and is now a Delaware limited liability company which was formed in 2007 and is wholly owned by HGI Holdings, LLC. HGGP Capital IX was formed in 2013, HGGP Capital X was formed in 2015, HGGP Capital XI was formed in 2016 and HGGP Capital XII was formed in 2017. Jordan E. Slone owns 25% or more of each of HGI Holdings, LLC, HGGP Capital IX, HGGP Capital X, HGGP Capital XI and HGGP Capital XII.

HGI provides discretionary advisory services to several related privately-offered pooled investment vehicles (collectively, the “Funds”) that invest in real estate properties and real estate related financial instruments (including debt and preferred equity investments backed by real estate properties and real estate related structured debt investments). The Funds are typically structured as limited partnerships and limited liability companies that are exempt from registration as investment companies under U.S. law by virtue of Section 3(c)(1), Section 3(c)(5) and/or Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). HGI also provides investment advice to privately-offered pooled investment vehicles that hold only real estate (the “Real Estate Accounts”). Because the Real Estate Accounts do not hold securities, HGI is not subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) with respect to the Real Estate Accounts and only complies with the Advisers Act with respect to the Funds.

In providing services to the Funds, HGI formulates each Fund’s investment objectives, directs and manages the investment of each Fund’s assets. Investment advice is provided directly to the Funds and not individually to the limited partners or members of the Funds (the “Investors”). HGI manages the assets of the Funds in accordance with the terms of each Fund’s applicable confidential offering and/or private placement memorandum, individual limited partnership or operating agreement, investment advisory or management agreement, side letter agreements negotiated with Investors in an applicable Fund and other governing documents applicable to a

Fund (the “Governing Fund Documents”). All terms are generally established at the time of the formation of a Fund, and are only terminable once the applicable Fund is dissolved.

HGI is responsible for identifying investment opportunities for the Funds, as well as facilitating the acquisition, monitoring, and disposition of each of the Funds’ investments. Certain Funds are organized into a structure comprised of parallel Funds, which may include entities formed for Investors to invest through such parallel Funds (collectively, “Parallel Funds”). The Parallel Funds include feeder and related entities formed and managed by the Manager or General Partner or an affiliate thereof to facilitate certain Investors’ investment into one or more of such Parallel Funds. Parallel Funds generally invest in assets side-by-side based upon capital commitments. Generally Parallel Funds are established to accommodate specific compliance, legal, regulatory, tax or other needs of certain Investors and may be organized in a variety of jurisdictions. In addition, HGI may consider the formation of Funds or other structures including but not limited to separate accounts and management agreements that have investment objectives that differ from or that do not otherwise conflict with the Governing Fund Documents of other Funds.

HGI’s objective is to generate income and capital appreciation through the selective acquisition of income-producing real estate properties and financial investments supported by real estate properties subject to certain limitations described in the Governing Fund Documents and further subject to the availability of sufficient capital.

As of December 31, 2017, HGI and its affiliates managed on a discretionary and non-discretionary basis approximately \$7.3 billion in assets consisting of real estate related investments held for investment purposes.^[1] Of this amount, HGI had approximately \$820.5 million (inclusive of HGGP Capital IX, HGGP Capital X, HGGP Capital XI and HGGP Capital XII) in assets under management on behalf of the Funds, all of which are managed on a discretionary basis.

Item 5: Fees and Compensation

Manager’s Interest; Carried Interest.

Affiliates of HGI typically serve as the manager of each HGI controlled Fund and/or holding company and receive a 10% membership interest in such Fund or holding company without making any cash equity contribution in such entity, thereby diluting the ownership interest of those Investors that do make the cash equity contributions required in connection with the related property investment. In certain transactions, the percentage membership interest issued to a HGI affiliate may range from 5% - 20%; for some investments, HGI receives no carried interest. Additionally, HGI affiliates may receive carried interest on certain investments provided defined performance thresholds are achieved.

^[1] These assets under management refer to the value of all real estate-related assets with respect to which HGI and its affiliates provides oversight, investment management services and other advice, and which generally consist of investments in real estate; equity in funds; securities portfolios; and operating companies. This assets under management calculation may differ from the calculations of other advisers.

Real Property Related Fees.

In connection with investments by the Funds and/or holding companies controlled by HGI, various fees are typically payable to HGI and/or its affiliates in connection with the acquisition, management, refinancing and sale of such real estate properties and investments, as follows:

Asset Management Fee. HGI is paid an annual asset management fee in connection with each HGI controlled real property of up to 1.25% of the annual revenues generated by such property for the services of developing and implementing the business plans for the investments, supervising and directing the property management companies, reviewing the monthly financial statements and annual budgets and making recommendations with respect thereto, monitoring operations via visits to the investments and making recommendations regarding capital improvements and capital transactions such as sales or refinancings. Asset management fees are collected either monthly or quarterly for the prior performance period. Asset management fees paid by a Fund are indirectly borne by Investors in such Fund. The asset management fee arrangement is detailed in the applicable Governing Fund Documents of each Fund received by each Investor prior to an investment in such Fund. At the discretion of each Fund's General Partner or Manager, the asset management fee may be reduced, waived or modified, both voluntarily and on a negotiated basis with selected Investors via side letter and other arrangements, which may not be disclosed to other investors in the same Fund. The fee structures described herein may be modified from time to time. Fees may differ from one Fund to another, as well as among Investors in the same Fund.

Acquisition Fees. In connection with the acquisition or investment of each HGI real property or investment, an acquisition fee typically in the range of 1.25% to 1.75% (with a minimum fee of \$350,000) of the purchase price of the property is paid to HGI in cash at closing. The acquisition fee is paid for the services of identifying an investment opportunity, developing financial models regarding the projected future financial performance of a property, negotiating the purchase contract, directing due diligence, obtaining mortgage financing for the property, and working with legal counsel and other third parties to close an acquisition.

Refinancing Fees. In connection with any refinancing of the debt securing any HGI controlled real property, a refinancing fee typically in the range of 0.25% to 0.5% of the amount of the new loan proceeds typically is paid to HGI in cash at the closing of such refinancing. The refinancing fee is paid for the services of identifying a mortgage lender, negotiating financing terms, negotiating loan documents and working with legal counsel and other third parties to close the refinancing. HGI determines the amount of a refinancing fee based upon various factors in its sole discretion, including, without limitation, the complexity and size of the transaction and overall financial performance of the applicable property.

Disposition Fees. In connection with any sale of an HGI controlled real property investment, a disposition fee typically in the range of 0.5% to 1.0% of the aggregate purchase price of the property typically is paid to HGI in cash at the closing of such sale. The disposition fee is paid for the services of selecting a broker to market the property, working with the broker on the preparation of investment sales materials, working with onsite staff at the property during due

diligence by potential buyers, reviewing purchase offers, negotiating purchase contracts and working with legal counsel and other third parties to close the disposition. HGI determines the amount of a divestiture fee based upon various factors in its sole discretion, including, without limitation, the complexity and size of the transaction and overall financial performance of the applicable property.

Property Management Fees. An HGI affiliate or a third-party non-affiliated professional property management firm is typically engaged to provide property management services, including the management, operation and maintenance of a property. Property managers are typically paid an annual property management fee of up to 3.5% of the annual gross revenues generated by the property for the management, operation and maintenance of a property. The property manager is also typically paid a wind down fee upon disposition of the property which is generally equal to a multiple of the average amount of the property management fees paid for the trailing three month period ending immediately prior to the closing of the disposition. Additionally, the property manager will be reimbursed for certain property-related expenses and costs, including the salaries and travel expenses of certain employees of the property manager including all onsite personnel, which may be substantial.

Construction Management Fees for Real Property Investments. An HGI affiliate or a third party non-affiliated professional construction management firm is typically engaged to provide construction management services, including the development of capital budgets and a capital improvement timeline with respect to a property, negotiating and executing contracts with design professionals and other third party vendors, and engaging in project and risk management. In exchange for such construction services, the construction manager will typically be paid a fee equal to a percentage (generally 4%) of the total capital expenditures deployed.

Terms of Affiliate Contracts. HGI provides property and asset management services to most of the properties in which the Funds invest. Accordingly, contracts for those services will not be negotiated on an “arms-length” basis. Despite this, the Funds expect that HGI will render these services for the price and on the terms expected from an unaffiliated third party and in a manner consistent with customary business practices. Additionally, because of this conflict of interest, the affiliates of HGI may benefit from the Funds retaining its investments in properties and leveraging properties, while the Funds’ Investors may be better served by disposing of a property or holding a property on an unleveraged basis.

Shared Services Fees for Real Property Investments. In addition to property management fees and construction management fees, an HGI affiliate may enter into a Management Services Agreement for each property for purposes of providing certain services which would otherwise be outsourced for a property which an HGI affiliate can provide on a more efficient and/or customized basis (“Shared Services”). Such Shared Services typically include help desk support, payroll management/processing, human resource administration and, in the case of multifamily properties, pricing management and analysis. In exchange for the delivery of such Shared Services, an HGI affiliate is typically paid a fee ranging between \$400-\$800 per month for multifamily properties (determined within this range by reference to the number of units at the property) and typically a fee of \$109 per month for all other properties.

In-House Professional Fees. HGI has the authority to engage other service providers to provide professional services for a property or investment. HGI may charge fees for such services which would otherwise be outsourced for a property or investment which HGI (or its affiliates) professionals and personnel can provide on a more efficient, timely and/or customized basis (such as legal, tax, accounting, and highly specialized maintenance services).

When hiring an affiliate of HGI as a service provider, such fees are determined based on prevailing market rates, the availability of suitable efficient alternatives and the time and complexity of the tasks involved. In those instances in which such services benefit multiple properties or other investments or multiple investment vehicles, such fees may be prorated or allocated in a reasonable manner among such properties or investments. Any fees charged by a service provider will reflect market rates rather than the cost incurred by the applicable service provider, as determined by HGI in its reasonable discretion. In addition, each service provider will be reimbursed for the expenses incurred by such service provider.

Title Insurance Fees. HGI holds a minority interest in Waterside Title Agency, LP which is frequently engaged by HGI affiliates to provide title insurance services. The financial benefit HGI receives is typically shared with the applicable HGI affiliate on a 50%/50% basis. Title insurance fees are shared with the HGI affiliate only for acquisitions and not in situations where a property is refinanced or sold.

Mezzanine / Preferred Equity / Structured Debt Investments Related Fees.

HGI receives an investment fee at closing typically up to 4% of the equity deployed to a specific investment by certain Funds and an ongoing annual asset management fee generally in the range of 0.75% - 1.25% of the then outstanding equity invested by such Funds. In the case of structured debt investments, including those purchased at a discount to par, investment fees are calculated on the par balance of the loan or loan pool when purchased; annual asset management fees are calculated on the par balance of the loan or loan pool outstanding at any time. These asset management fees are payable for HGI's services in connection with sourcing the investment and negotiating investment terms, performing due diligence, negotiating legal documents, and working with legal counsel and other third parties to close the investment. In addition, following closing, HGI will monitor financial performance of the underlying investments on a monthly basis and conduct such ongoing property visits and communications with property owners as HGI deems are necessary. In the event a property owner defaults under its contractual obligations to HGI, or its obligations under a loan in a structured debt investment, then HGI will also act on behalf of a Fund's Investors to exercise such rights and remedies and take such other actions as HGI deems prudent under the circumstances.

Additional Fees.

There may be additional fees paid in connection with a Fund's investments (both to third parties and to HGI and its affiliates), particularly in development or passive investment projects in which third parties may assess their own fees and charges.

Other Fees and Expenses.

The Funds and, indirectly, the Investors, will bear the costs of prosecuting or defending any legal action for or against the Funds, the Funds' General Partner or Manager, HGI or their affiliates in connection with the offering of the Funds' securities to Investors as well as the Funds' investments and operations. In addition, the Funds will indemnify and hold harmless certain parties in connection with certain acts or omissions as further described in the Funds' Governing Fund Documents.

The Funds generally will also be required to bear a portion of any costs and expenses of investments made by the Funds, including organizational and legal costs associated with the formation of property owner entities and closing costs for such investments. All such costs and expenses will be paid from the Funds' invested capital in a particular transaction and will not require capital contributions from the Funds' Investors in excess of their initial committed capital.

Partners of HGI in joint venture arrangements may, in certain instances, be paid a promote or similar portion of the profits of the underlying portfolio investments and/or properties. Such amounts are typically negotiated in advance between HGI and the joint venture partner and are set forth in the documents governing the joint venture.

Investors must refer to the detailed information found in each Fund's Governing Fund Documents for specific information about the fees that may be earned by HGI and the fees potentially charged to the Funds.

From time to time, the General Partner or Manager of a Fund may create certain "special purpose vehicles" or similar structuring vehicles for purposes of accommodating certain tax, legal and regulatory considerations of Investors ("SPVs"). In the event an SPV is created, consistent with the Governing Fund Documents of the applicable Fund, the SPV, and indirectly, the Investors thereof, will typically bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the SPV. Expenses of the type borne by a Fund but associated with any feeder fund or similar vehicle organized to facilitate the participation of certain investors in the Fund (including, without limitation, expenses of accounting and tax services) may be borne by the Fund.

Allocation of Expenses.

From time to time HGI will be required to decide whether certain fees, costs and expenses should be borne by a Fund, on the one hand, or HGI on the other hand, and/or whether certain fees, costs and expenses should be allocated between or among Funds and/or other parties. Certain expenses may be the obligation of one particular Fund and may be borne by such Fund or, expenses may be allocated among multiple Funds and entities. In exercising its discretion to allocate investment opportunities and fees and expenses among Funds with differing fee, expense and compensation structures, HGI has an incentive to allocate investment opportunities to the Funds from which HGI or its related persons may derive, directly or indirectly, a higher fee, compensation or other benefit. Such allocation determinations are inherently subjective and give rise to conflicts of interest due to inherent biases in the process.

To the extent not allocated to an investment, HGI will allocate fees and expenses incurred in the course of evaluating and making investments that are consummated between Funds in accordance with each Fund's Governing Fund Documents or, to the extent not addressed in such Governing Fund Documents, pro rata based on the respective total capital commitments of such Funds.

Brokerage Fees.

Although HGI does not generally utilize the services of broker-dealers to effect portfolio transactions for the Fund, in the event that it chooses to use a broker-dealer for limited purposes relating to a particular Fund such Fund will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see *Item 12 (Brokerage Practices)* below.

Item 6: Performance Based Fees and Side-by-Side Management

HGI affiliates may be eligible to receive a portion of the profits of the Funds as incentive compensation from the Funds' investments as "carried interest" (the "Carried Interest"). Each General Partner or Manager of a Fund is a related person of HGI. Carried Interest paid by a Fund is indirectly borne by the Investors in such Fund. Certain Funds and Investors in such Funds may incur lower or no Carried Interest.

The fact that HGI affiliates are compensated based on a share of capital gains on or capital appreciation of the assets held by the Funds may create an incentive for HGI to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. Additionally, the payment by some, but not all, Funds of Carried Interest or the payment of Carried Interest at varying rates (including varying effective rates based on the past performance of a Fund) creates an incentive for HGI to disproportionately allocate time, services or functions to Funds paying Carried Interest or Funds paying Carried Interest at a higher rate, or allocate investment opportunities to such Funds. Generally, and except as may be otherwise set forth in the Governing Fund Documents of the Funds, this conflict is mitigated by (i) certain limitations on the ability of HGI to establish new investment funds, (ii) contractual provisions requiring certain Funds to purchase and sell investments contemporaneously and/or (iii) contractual provisions and procedures setting forth investment allocation requirements.

Please also see *Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading)* below regarding allocation for additional information relating to how conflicts of interests are generally addressed by HGI.

Item 7: Types of Clients

HGI currently provides investment advisory services solely to the Funds. Investment advice is provided directly to the Funds and not individually to the Investors in a Fund. Investors in the Funds may include, but are not limited to, high net worth individuals, family offices, fund of funds, hedge funds, endowments, foundations, trusts, charitable organizations, pension plans, and corporate or business entities.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. All Investors in a Fund must represent in writing that they are “accredited investors” (as defined in Rule 501 of Regulation D, adopted under the Securities Act), in certain Funds “qualified purchasers” (as defined in the 1940 Act) “and “qualified clients” (within the meaning of Rule 205-3(d)(1) under the Advisers Act.

Minimum investment commitments may be established for Investors in a Fund. However, HGI maintains discretion to accept less than the minimum investment threshold.

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

Methods of Analysis and Investment Strategy Generally

HGI’s objective is to identify investments for its clients which will generate income and capital appreciation through the selective acquisition of income-producing real estate properties and financial investments supported by real estate properties. Investments may include any type of real estate project, property or related financial investment (such as a loan to a property owner). Investment assets may include existing income producing office buildings, multi-family apartment complexes, urban retail properties, hotels, business and industrial parks and warehouse and distribution facilities as well as development projects (involving any of the foregoing property types). In selecting real estate properties, HGI’s investment objectives are:

- to maximize net cash from operations to be distributed to its clients;
- to preserve, protect and return capital contributions; and
- to realize capital appreciation upon the ultimate sale of properties.

HGI seeks to invest in properties and financial instruments that will satisfy the primary objective of providing distributions of current cash flow to its clients. However, because a significant factor in evaluation of income-producing real estate properties is their potential for capital appreciation, HGI anticipates that a significant portion of its client investments will have the potential for capital appreciation in addition to distributions of current cash flow, particularly with respect to owned properties. In addition, investments in certain projects may not generate current cash returns for several years. Certain real estate related financial investments (such as investments in real estate related loans) and preferred equity investments in real estate projects will likely emphasize the income-producing aspect of the investment and may not have the potential for capital appreciation.

Summary of Material Risks

An investment in the Funds involves a high degree of risk. In making a decision whether to invest in the Funds, a prospective investor should consider carefully the impact of the following factors. The following is not a complete list of all relevant risks associated with an investment in the Funds, and prospective investors should carefully review the risks included in the Governing Fund Documents of a Fund. Prospective investors should also consult with their legal, tax and investment advisors before determining to make any investment in the Funds.

Risks Inherent in Real Estate. The Funds’ success will be dependent on HGI’s ability to invest in financially successful real estate properties and other real estate related financial investments.

Thus, an investment in the Funds will be subject to all of the risks inherent to real estate investments, such as:

- The risk that properties may not perform in accordance with expectations, including projected occupancy and rental rates;
- The risk that the entities in which the Funds invest may have overpaid for properties or real estate related investments;
- The risk that HGI or the sponsors of a project in which HGI is making a passive investment may have underestimated the cost of improvements required to bring an acquired property up to standards established for its intended use or its intended market position; and
- The risk that properties have unforeseen environmental or other hazards resulting in unexpected costs.

Additionally, the economic performance and value of the Funds' investments will be affected by many factors, including the following:

- Changes in general economic or local conditions;
- Changes in supply of or demand for similar or competing properties in an area;
- Volatility in the capital markets, including changes in interest rates and availability of capital (including permanent mortgage funds) which may render the sale of a property difficult or unattractive;
- Changes in tax, real estate, environmental or zoning laws;
- Periods of high interest rates and tight money supply which may make the sale of properties more difficult;
- Natural disasters, acts of war and terrorism, and similar events;
- Political or social instability or uncertainty;
- Tenant turnover; and
- General overbuilding or excess supply in the market area.

Lack of Diversification. A lack of diversity in the Funds' investments or a Parallel Fund's single investment could increase the risks associated with an investment in the Funds.

Highly Competitive Market for Investment Opportunities. The business of identifying and structuring real estate investments is highly competitive and involves a high degree of uncertainty. The Funds compete for investments with other real estate investment vehicles, as well as individuals, financial institutions and other institutional Investors which may have greater financial and other resources. In addition, the availability of investment opportunities is subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

Leverage. The Funds may leverage their investments with debt financing in amounts which are significant relative to the costs of the investments. Incurring mortgage debt increases the risk of loss because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately a Fund loss of properties securing any loans for which it is in default. A foreclosure could also cause a Fund to recognize taxable income, even in the absence of

any cash proceeds. In certain circumstances, financing may be recourse to the underlying Fund, which may expose the Fund to the loss of other assets not directly securing the loan.

Government Regulation. The real estate industry is extensively regulated and subject to frequent regulatory change. The adoption of new legislation or changes in existing laws or new interpretations of existing laws can have a significant impact on methods of doing business, costs of doing business and amounts of reimbursement from governmental and other agencies.

Risks Relating to Tenants. HGI may not be able to attract credit-worthy tenants for their properties or replacement tenants at rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require capital improvements to properties which would not have otherwise been planned. Any unbudgeted capital improvements that are undertaken may divert cash from that which would otherwise be available for distributions to clients or may require unanticipated borrowings. Furthermore, at any time, a tenant may seek the protection of bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the distributable cash flow to clients.

Potential Environmental Liabilities. Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell such property or to borrow using such property as collateral. A Fund could also be held liable for any and all consequences arising out of past and future releases of, or exposure to, such hazardous or toxic substances or other environmental damage.

Recent Financial Market Fluctuations. General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced since 2008, may reduce the availability of attractive investment opportunities for the Funds and may affect the Funds' ability to make investments and the value of the investments held by the Funds. Instability in the securities markets and economic conditions generally may also increase the risks inherent in the Funds' investments. The public securities markets have seen increased volatility and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by the tightening of the credit markets and the ongoing financial turmoil. It is unclear what the repercussions of this market turmoil may be. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will, in the future, become more liquid than it is at present and it may well continue to be volatile for the foreseeable future. The ability to realize investments depends not only on portfolio investments and their historical results and prospects, but also on political, market and economic conditions at the time of such realizations. In the past, many private equity funds have looked to the public securities markets as a potential exit strategy and there can be no assurance, particularly given the recent volatility in the financial markets and a potential lack of investor appetite for new issues in the public securities markets, that Funds will be able to exit

from their investments in portfolio investments by listing their shares on securities exchanges. The trading market, if any, for the securities of any portfolio investment may not be sufficiently liquid to enable to a Fund to sell these securities when HGI believes it is most advantageous to do so, or without adversely affecting the stock price. Continued or renewed volatility in the financial sector may have an adverse material effect on the ability of the Funds to buy, sell and partially dispose of their portfolio investment investments. The Funds may be adversely affected to the extent that they seek to dispose of any of their portfolio investments into an illiquid or volatile market, and a Fund may find itself unable to dispose of investments at prices that HGI believes reflect the fair value of such investments. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted.

Cybersecurity Risk. HGI, the Funds' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Funds and their Investors, despite the efforts of HGI and the Funds' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and its Investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of HGI, the Funds' service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of HGI's systems to disclose sensitive information in order to gain access to HGI's data or that of the Funds' Investors. A successful penetration or circumvention of the security of HGI's systems could result in the loss or theft of an Investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, HGI or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. In addition, HGI may incur substantial costs related to forensic analysis of the origin and scope of a cybersecurity breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, adverse investor reaction or litigation.

Similar types of operational and technology risks are also present for the companies in which the Funds invest, which could have material adverse consequences for such companies, and may cause the Funds' investments to lose value.

Item 9: Disciplinary Information

Neither HGI nor any of its officers, directors, or employees or other management persons, has been involved in any legal or disciplinary events that would require disclosure in response to this Item.

Item 10: Other Financial Industry Activities and Affiliations

HGI is a large global organization that sponsors real estate investment opportunities, and as such has numerous related persons that serve as a sponsor, general partner, managing member (or

equivalent) to related Funds. Harbor Group International, LLC has four relying advisers: HGGP Capital IX, HGGP Capital X, HGGP Capital XI and HGGP Capital XII. Each of the relying advisers is under common control with Harbor Group International, LLC. HGI provides investment advisory services to the Funds as more fully discussed in *Item 4 (Advisory Business)*. Affiliates of HGI serve as either General Partner or Manager to the Funds. In addition to investment advisory services, HGI also has affiliated entities that provide property management, construction, development and leasing services to certain of the properties held by the Funds. Please see *Item 5 (Fees and Compensation)* for a description of the property-related services and fee arrangements for such services.

Having multiple affiliates that are in the real estate services business may give rise to a conflict of interest if HGI has discretion to select, or is responsible for recommending to a Fund, service providers that are affiliates. For a description of material conflicts created by the relationship among HGI and its affiliates, as well as a description of how such conflicts are addressed, please see *Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading)*.

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

Code of Ethics

Pursuant to Rule 204A-1 of the Advisers Act, HGI has adopted a written Code of Ethics (the “Code”). The Code is designed to address and avoid potential conflicts of interest and is generally applicable to all officers, directors, members, partners or employees of HGI involved in its investment advisory business (the “Employees”). The Code establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. Employees and their families and households may purchase investments for their own accounts, including the same investments as may be purchased or sold for a Fund, subject to the terms of the Code. Under the Code, Employees are also required to file certain periodic reports with the HGI’s Chief Compliance Officer as required by Rule 204A-1 under the Advisers Act. The Code helps HGI detect and prevent potential conflicts of interest.

Employees who violate the Code may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Employees are also required to promptly report any violation of the Code of which they become aware. Employees are required to annually certify compliance with the Code.

A full copy of the Code will be made available to Investors or prospective investors in the Funds upon request to: Lucinda W. Klevecz, General Counsel and Chief Compliance Officer at 757-961-2032 or email lklevecz@harborg.com.

Participation or Interest in Client Transactions

HGI, its Employees or affiliated entities (collectively “Related Persons”), will generally have an investment in the Funds managed by HGI. A Fund or its General Partner or Manager, as applicable, may reduce all or a portion of the asset management fee and Carried Interest related to investments held by such persons. As a result, Related Persons have an interest in an investment that may also be recommended to the Funds. For further details regarding these arrangements, as well as conflicts of interests presented by them, please see “Conflicts of Interest” immediately below.

Personal Trading

The Code places restrictions on personal trades by Employees involved in its investment advisory business, including that they disclose their personal securities holdings and transactions to HGI on a periodic basis, and requires that Employees pre-clear certain types of personal securities transactions. HGI and its Related Persons may invest on behalf of themselves in securities that would be appropriate for, held by, or may fall within the investment guidelines of the Funds, subject to a pre-clearance process.

Conflicts of Interest

HGI and its affiliates engage in a broad range of activities, including investment activities for their own account and for the account of other funds, and providing property-related, investment advisory, management and other services to funds and properties. In the ordinary course of conducting its activities, the interests of a Fund will, from time to time conflict with the interests of HGI, other Funds or their respective affiliates. Certain of these conflicts of interest, as well as description of how HGI addresses such conflicts of interest, can be found below.

Resolution of Conflicts

In the case of all conflicts of interest, HGI’s determination as to which factors are relevant, and the resolution of such conflicts, will be made using HGI’s best judgment, but in its sole discretion. In resolving conflicts, HGI will consider various factors, including the interests of the applicable Funds with respect to the immediate issue and/or with respect to their longer term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- (1) A Fund will not make an investment unless HGI believes that such investment is an appropriate investment considered from the viewpoint of such Fund;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the Governing Fund Documents for the Funds; and
- (3) Prior to subscribing for interests in a Fund, each Investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Fund.

In addition, certain provisions of the Governing Fund Documents of a Fund are designed to protect the interests of investors in situations where conflicts may exist, although these provisions do not eliminate such conflicts. In certain instances, some of such conflicts of interest may be resolved in a manner adverse to a Fund and its ability to achieve its investment objectives.

Conflicts

The material conflicts of interest encountered by a Fund include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Fund. Other conflicts may be disclosed throughout this brochure and the brochure should be read in its entirety for other conflicts.

Allocation of Investment Opportunities Among Clients

In connection with its investment activities, HGI may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, the Funds, any co-investment vehicle formed to invest side-by-side with one or more Funds, HGI Investors and/or third parties that wish to make direct investments with one or more Funds in particular properties. HGI has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently therewith. HGI recognizes its fiduciary duty to act in the best interests of the Funds.

The Funds are generally subject to investment allocation requirements (collectively, “Investment Allocation Requirements”). Investment Allocation Requirements are generally set forth in Governing Fund Documents for a Fund. To the extent the Investment Allocation Requirements of a Fund do not include specific allocation procedures and/or allow HGI discretion in making allocation decisions among the Funds, HGI will follow the process set forth below.

HGI must first determine which Funds will participate in an investment opportunity. HGI assesses whether an investment opportunity is appropriate for a particular Fund(s), based on the Fund’s investment objectives, strategies and structure. A Fund’s investment objectives, strategies and structure typically are reflected in the Fund’s Governing Fund Documents. Prior to making any allocation to a Fund of an investment opportunity, HGI determines what additional factors may restrict or limit the offering of an investment opportunity to the Fund(s).

In instances when HGI may be in a position to allocate investment opportunities to more than one Fund at a time, it will use reasonable efforts to ensure that each Fund is treated in a fair and equitable manner. In making any such allocation, HGI may consider, among other things, the diversification (both geographically and by type and size of investment), each Fund’s liquidity and reserves, lender covenants and other limitations, any “ramp-up” period for a newly established Fund; targeted rate of return, availability of committed capital and the length of time such capital has been available for investment, availability of other suitable investments, risk considerations, supply or demand for an investment opportunity at a given price level; cash flow considerations and applicable legal, tax and regulatory considerations. HGI will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Fund or (ii) the profitability of any Fund. There can be no assurance that the

application of the Investment Allocation Requirements and factors set forth above will result in a Fund participating in all investment opportunities that fall within its investment objectives.

Secondary Transactions

To the extent HGI has discretion over a secondary transfer of interests in a Fund pursuant to such Fund's Governing Fund Documents, or is asked to identify potential purchasers in a secondary transfer, HGI will do so in its sole discretion, generally taking into account the following factors:

- HGI's evaluation of the financial resources of the potential purchaser, including its ability to meet capital contribution obligations;
- HGI's perception of its past experiences and relationships with the potential purchaser, including its belief that the potential purchaser would help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits to current or future Funds and/or HGI and the expected amount of negotiations required in connection with a potential purchaser's investment;
- Whether the potential purchaser would subject HGI, the applicable Fund, or their affiliates to legal, regulatory, reporting, public relations, media or other burdens;
- Requirements in such Fund's Governing Fund Documents; and
- Such other facts as it deems appropriate under the circumstances in exercising such discretion.

A purchaser's potential investment into another Fund (including any commitment to a future fund) may be considered, but will not be the sole determining factor considered by HGI in determining whether to grant or withhold its consent to a secondary transfer of interests in a Fund.

Conflicts Related to Purchases and Sales

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by other Funds, or in a transaction where another Fund has already made an investment. Investments by more than one Fund of HGI in a property also raise the risk of using assets of a Fund of HGI to support positions taken by other Funds of HGI. Investment opportunities may, from time to time be appropriate for Funds at the same, different or overlapping levels of a portfolio investment's capital structure. Conflicts arise in determining the terms of portfolio investments, particularly where these clients may invest in different types of securities in a single investment. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest, particularly in Funds that have invested in different securities within the same portfolio investment. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, Funds will be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or

other opportunities, the Funds may or may not provide such additional capital, and if provided each Fund will supply such additional capital in such amounts, if any, as determined by HGI. Investments by more than one client of HGI in a portfolio investment will also raise the risk of using assets of a client of HGI to support positions taken by other clients of HGI, or that a client may remain passive in a situation in which it is entitled to vote. In addition, HGI may express inconsistent views of commonly held investments or of market conditions more generally.

Employees and Related Persons of HGI and its affiliates have made or may make capital investments in or alongside certain Funds, and therefore often have additional conflicting interests in connection with these investments. There can be no assurance that the return of a Fund participating in a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

The Funds, from time to time, co-invest with third-parties through partnerships, joint ventures or other similar entities or arrangements. These investments may involve risks that would not otherwise be present in investments where a third-party is not involved. Such risks include, among other things, the possibility that the third-party may have differing economic or business goals than those of the Fund. There can be no assurance that the return of a Fund participating in a transaction with a third party would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Cross-Transactions

In certain cases, HGI will, from time to time cause a Fund to purchase investments from another Fund, or it will cause a Fund to sell investments to another Fund. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Fund may not receive the best price otherwise possible, or HGI might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, HGI, its affiliates and/or their professionals (i) will, from time to time, have significant investments, or intentions to invest, in the Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). HGI and its affiliates receive management or other fees in connection with their management of the relevant Funds involved in such a transaction, and generally are entitled to share in the investment profits of the relevant Funds. To address these conflicts of interest, in connection with effecting such transactions, HGI will follow the Investment Allocation Requirements of the relevant Funds (e.g., the Governing Fund Documents of certain Funds may provide for the rebalancing of investments at certain times and at a cost set forth in those Governing Fund Documents so that these Funds' resulting ownership of investments is generally proportionate to the relative capital commitments of the Fund). To the extent such matters are not addressed in the Investment Allocation Requirements, HGI's Vice Chairman and Chief Compliance Officer will be responsible for confirming that HGI (i) considers its respective duties to each Fund, (ii) determines whether the purchase or sale and price or other terms are comparable to what could be obtained through an arm's length transaction with a third party on commercially

reasonable terms, and (iii) obtains any required approvals of the transaction's terms and conditions.

Principal Transactions

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. In connection with HGI's management of the Funds, HGI and its affiliates may engage in principal transactions. HGI has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Fund(s) regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Management of the Funds

HGI and its affiliates may raise additional private funds or form additional investment entities, including but not limited to those described above, with the same or substantially similar investment objectives as the Funds. Any such additional entities would compete with certain Funds for the time and expertise, services or functions of HGI Employees and owners as well as for suitable investment properties. Allocation of available investment opportunities between the Funds and any such investment fund could give rise to conflicts of interest. See "*Allocation of Investment Opportunities Among Clients*" above. In addition, HGI may give advice or take actions with respect to, the investments of one or more Fund that may not be given or taken with respect to other Funds with similar investment programs, objectives or strategies.

Conflicts Relating to the General Partners, Managers and HGI

HGI, its affiliates, and members, officers, principals and employees of HGI and its affiliates may buy or sell securities or other instruments that HGI has recommended to Funds. Officers, principals and employees of HGI may also buy securities in transactions offered to but rejected by Funds. A conflict of interest may arise because such investing HGI personnel will, for some investments, benefit from the evaluation, investigation, and due diligence undertaken by HGI on behalf of the Fund. In such circumstances, expenses incurred by the relevant Fund(s) and/or HGI in connection with the investment opportunity will generally be allocated between the investing personnel and the relevant Fund(s). The transactions described above are subject to the policies and procedures set forth in the Code and Investors will not benefit from any such investments. The investment policies, fee arrangements and other circumstances of these investments may vary from those of the Funds. If officers, principals and employees of HGI have made large capital investments in or alongside the Funds they will have conflicting interests with respect to these investments. While the significant interests of the officers and employees of HGI generally aligns the interest of such persons with the Funds, such persons may have differing interests from the Fund with respect to such investments (for example, with respect to the availability and timing of liquidity).

Because certain expenses are paid for by a Fund and/or its portfolio investments or, if incurred by HGI, are reimbursed by a Fund and/or its portfolio investments, HGI may not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio investments to incur) such expenses.

Affiliated Service Providers

As noted above in *Item 5 (Fees and Compensation)*, HGI generally retains service providers for certain property management, construction management, and other services applicable to a property, which may be an affiliate of HGI. The service provider receives a fee from the applicable property or Fund (or is reimbursed from the applicable property). A conflict of interest arises when engaging an affiliate as a service provider, because HGI has an incentive to recommend an affiliate even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost. The Governing Fund Documents of a Fund may set forth parameters and/or restrictions on the use of affiliated service providers.

Any fees charged by an affiliated service provider will reflect market rates rather than the cost incurred by the applicable service provider, as determined by HGI in its reasonable discretion. In addition, each service provider will be reimbursed for the expenses incurred by such service provider. Any fees or expenses payable to a service provider are in addition to any asset management fee, Carried Interest, or other fee or compensation received by a service provider and will not reduce such fees paid by the Funds. In those instances in which such services benefit multiple properties or other investments or multiple investment vehicles, such fees may be prorated or allocated in a reasonable manner among such properties or investments.

Additionally, affiliated service providers (including affiliated property managers) will be reimbursed for certain expenses and costs, including the salaries and travel expenses of the applicable employees, which may be substantial.

Although the use of affiliated service providers (including affiliated property managers) and allocation of expenses and fees paid to them may subject HGI and its affiliates to potential conflicts of interest, HGI believes any such potential conflicts of interest are mitigated by the expected savings to the properties (and, in turn, the relevant Fund(s)) that will be applied if the cost of the affiliated service provider is lower than market rates for the services provided, or if the services provided by the affiliated service providers are consistent with the business strategy HGI has for the relevant property.

Fee Structure

Because there is a fixed investment period after which capital from Investors in certain Funds will only be drawn down in limited circumstances and because asset management fees are, at certain times during the life of such Funds, based upon invested equity, this fee structure creates an incentive to deploy capital when HGI would not otherwise have done so.

Additionally, as discussed above in *Item 6 (Performance Based Fees and Side-by-Side Management)*, the General Partners or Manager of the Funds are entitled to Carried Interest under the terms of the Governing Fund Documents of such Funds. Such General Partner or Managers are affiliates of HGI. The existence of Carried Interest creates an incentive for the General Partners or Manager to cause such Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

Pursuant to the Governing Fund Documents, the General Partner or Manager may be required to return excess amounts of Carried Interest as a “clawback”. This clawback obligation may create an incentive for the General Partner or Manager to defer disposition of one or more investments or delay the liquidation of a Fund if the disposition and/or liquidation would result in a realized loss to the Fund or would otherwise result in a clawback situation for the General Partner or Manager.

Fund Level Borrowing

The Funds from time-to-time may borrow funds to finance the Fund’s investments, in which case such borrowed funds would be secured by the applicable investment asset. The Funds also may make short term borrowings or enter into other financing arrangements resulting from an investor’s default or to fund capital contributions at the closing of an investment. If a Fund borrows prior to calling capital to fund the acquisition of an investment, the borrowing would be used for all investors in such Fund on a pro-rata basis.

Although borrowings by the Fund to finance investments have the potential to enhance overall returns that exceed the Fund’s cost of funds, such borrowings increase the potential exposure of the Fund to a particular investment above the level that the Fund would typically have, had an investment been limited to equity. Any such borrowings will further diminish returns (or increase losses on capital) to the extent overall returns on a financed investment are less than the Fund’s cost of funds. In addition, borrowings by the Fund may be secured by the Fund’s financed assets and the documentation relating to such borrowings may provide that during the continuance of a default under such borrowings, the interests of the investors may be subordinated to such Fund-level borrowing. Moreover, tax-exempt investors should note that the use of leverage by the Fund may cause the realization of “unrelated business taxable income.”

Diverse Membership

The Investors in the Funds are expected to include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such Investors often have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests among the Investors generally relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest arise in connection with decisions made by HGI or its affiliates, including with respect to the nature or structuring of investments, that are more beneficial for one Investor than for another Investor, especially with respect to Investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, HGI and its affiliates will consider the investment and tax objectives of the applicable Fund, not the investment, tax or other objectives of any Investor individually.

Side Letter Agreements

HGI may enter into certain side letter arrangements with certain Investors in a Fund providing such Investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights. Except as otherwise agreed with an Investor, HGI is not required to disclose the terms of side letter arrangements with other Investors in the same Fund.

Business with Investors; Service Providers

HGI and/or its affiliates may engage certain service providers to provide services to HGI, the Funds and/or the portfolio investments, including services during the due diligence and acquisition process. Such service providers are, in certain circumstances, investors in a Fund or affiliates of such investors and may include, for example, investment or commercial bankers, outside legal counsel pension consultants and/or other investors who provide services (including mezzanine and/or lending arrangements). The engagement of any such service provider may be concurrent with an investor's admission to a Fund, or during the term of such investor's investment in the Fund. This creates a conflict of interest, as HGI may give such investor preferred economics or other terms with respect to its investment in a Fund, or may have an incentive to offer such investor co-investment opportunities that it would not otherwise offer to such investor.

Additionally, employees of HGI or its affiliates, and/or their family members or relatives may have ownership, employment, or other interests in such service providers. These relationships that HGI may have with a service provider can influence HGI in determining whether to select, or recommend such service provider to perform services for a Fund or a portfolio investment. HGI will have a conflict of interest with the Funds in recommending the retention or continuation of a service provider to the Funds or a portfolio investment if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Funds or will provide HGI information about markets and industries in which HGI operates or is interested or will provide other services that are beneficial to HGI. Although HGI selects service providers that it

believes will enhance portfolio investment performance (and, in turn, the performance of the relevant Fund(s)), there is a possibility that HGI, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. While HGI often does not have visibility or influence regarding advantageous service rates or arrangements, there will be situations in which HGI receives more favorable service rates or arrangements than the Funds or their portfolio investments.

HGI or its affiliates and service providers, often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required and the time demands of the service provider. As a result, to the extent the services required by HGI or its affiliates differ from those required by the Funds and/or its portfolio investments, HGI and its affiliates will pay different rates and fees than those paid by the Funds and/or its portfolio investments. Notwithstanding the foregoing, HGI generally does not enter into any arrangement with a service provider that provides for a lower rate or discount than those available to a Fund or a portfolio investment for comparable services.

Other Potential Conflicts

The Governing Fund Documents of a Fund establish complex arrangements among the Funds, HGI, Investors, and other relevant parties. From time to time, questions may arise regarding certain parties' rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the Governing Fund Documents, if any, may be broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While HGI will construe the relevant provisions in good faith and in a manner consistent with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to a Fund or its Investors.

HGI and the Funds will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be Investors in a Fund, and may also represent one or more portfolio investments or Investors in a Fund. In the event of a significant dispute or divergence of interest between Funds, HGI and/or its affiliates, the parties may engage separate counsel in the sole discretion of HGI and its affiliates, and in litigation and other circumstances separate representation may be required. Additionally, HGI and the Funds and the portfolio investments of the Funds will, from time to time engage other common service providers. In certain circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to HGI, the Funds, and/or the portfolio investments. This may result in HGI receiving a more favorable rate on services provided to it by such a common service provider than those payable by the Funds and/or the portfolio investment, or HGI receiving a discount on services even though the Funds and/or the portfolio investments receive a lesser, or no, discount. This creates a conflict of interest between HGI, on the one hand, and the Funds and/or portfolio investments, on the other hand, in determining whether to engage such service

providers, including the possibility that HGI will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Funds and/or the portfolio investments.

Investors may be introduced to HGI, or may be brought in a Fund, by a third-party consultant from which HGI or a related person purchase products and to which HGI or a related person may make payments, including in connection with conferences sponsored or hosted by the third-party consultant.

HGI and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Fund. For example, airline travel or hotel stays incurred as Fund expenses may result in “miles” or “points” or credit in loyalty/status programs to HGI and/or its personnel, and such rewards and/or amounts will exclusively benefit HGI and/or such personnel and will not be subject to the offset arrangements described above or otherwise shared with such Fund, its Investors and/or the portfolio investments.

HGI has in the past and may, from time to time in the future, cause one or more Funds to purchase, and/or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) for insurance to insure the applicable Funds, the applicable general partner, HGI and/or their respective directors, officers, employees, agents, representatives and other indemnified parties, against liability in connection with the activities of the Funds. This may include a portion of any premiums, fees, costs and expenses for one or more “umbrella” or other insurance policies maintained by HGI that cover one or more Funds and/or HGI (including their respective directors, officers, employees, agents, representatives, and other indemnified parties). HGI will make judgments about the allocation of premiums, fees, costs and expenses for such “umbrella” or other insurance policies among one or more Funds, and/or HGI on a fair and reasonable basis, and may make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in a Fund bearing less (or more) premiums, fees, costs and expenses for insurance policies.

Item 12: Brokerage Practices

Selecting or Recommending Broker-Dealers

As the Funds invest principally in real estate assets, HGI is rarely required to select or recommend broker-dealers for Fund securities transactions. In circumstances where securities brokers or dealers are required, HGI will endeavor to select those brokers or dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services that will help us in providing investment management services to the applicable Funds. HGI may therefore use the broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in

servicing all of our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

HGI and its affiliates do not engage in any trade aggregation practices. HGI does not receive “soft dollars” in connection with its use of broker-dealers.

Item 13: Review of Accounts

The investment portfolios of the Funds are generally private, illiquid and long-term in nature, and accordingly HGI’s review of them is not directed toward a short-term decision to dispose of assets. However, the Funds’ portfolios are reviewed on a continuous basis. HGI investment personnel hold investment meetings, as necessary, to discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities.

HGI provides each Investor with (i) quarterly reports and annual reports that include financial information on the Funds’ investments, and (ii) a Schedule K-1 and such partnership tax information as HGI reasonably believes shall be necessary for the preparation by each Investor of its United States federal, state and local tax returns. HGI will from time to time, in their sole discretion, provide additional information relating to such Fund to one or more Investors in such Fund as they deem appropriate.

Item 14: Client Referrals and Other Compensation

HGI does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients.

While not a client solicitation arrangement, HGI may periodically engage finders to make introductions to HGI personnel. The fees and expenses of any finder will be paid by HGI.

Item 15: Custody

Custodial banks maintaining Fund assets send statements to an independent representative who compares the account statement received from the custodial bank to the account statements HGI delivers to Investors. To the extent a Fund is audited, HGI delivers audited financial statements to Investors. In addition, HGI has engaged an independent public accountant subject to registration and inspection by the PCAOB to conduct annual surprise asset verifications at a time decided by the independent accountant and provides reports to the SEC as to the results of those verifications.

Item 16: Investment Discretion

HGI generally has discretionary authority to determine, without obtaining specific consent from the Funds or its Investors, the investments and the amounts to be bought or sold on behalf of the Funds. Investment advice is provided directly to the Funds, subject to the direction and control of the General Partner or Manager of each Fund, and not individually to the Investors in the Funds. Services are provided to the Funds in accordance with the Governing Fund Documents of the

applicable Fund. Investment restrictions for the Funds, if any, are generally established in the Governing Fund Documents of the applicable Fund.

Item 17: Voting Client Securities

The Funds invest in real estate properties and financial investments supported by real estate properties which do not issue proxies. HGI generally does not hold securities which possess voting rights on behalf of the Funds. HGI maintains proxy voting policies as required should HGI be required to vote proxies on the Funds and address and resolve any material conflicts of interest that may arise in the course of such voting.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Fund and copies of proxy voting policies are available to any Investor or prospective investor upon written request to the Chief Compliance Officer Harbor Group International, LLC, 999 Waterside Drive, Suite 2300, Norfolk, Virginia, 23510 or via telephone at (757) 640-0800.

Item 18: Financial Information

HGI has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.