

**Cross Lake Partners LP**

**PART 2A OF FORM ADV: FIRM BROCHURE**

**Cross Lake Partners LP  
1166 Avenue of the Americas  
New York, NY  
United States 10036**

**October 24, 2018**

**This brochure provides information about the qualifications and business practices of Cross Lake Partners LP (“Cross Lake” or the “Firm”). If you have any questions about the contents of this brochure, please contact Cross Lake’s Chief Compliance Officer, Jonathan Shumaker, at 212-599-6336. 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.**

**Any reference to Cross Lake as a registered investment adviser does not imply a certain level of skill or training.**

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

---

***Item 2: Material Changes***

---

Since the most recent Form ADV Other-Than-Annual Amendment filed on June 28, 2018, there are no material changes to disclose.

---

**Item 3: Table of Contents**

---

	<b>Page</b>
<i>ITEM 2: MATERIAL CHANGES .....</i>	<i>2</i>
<i>ITEM 3: TABLE OF CONTENTS .....</i>	<i>3</i>
<i>ITEM 4: ADVISORY BUSINESS .....</i>	<i>4</i>
<i>ITEM 5: FEES AND COMPENSATION.....</i>	<i>5</i>
<i>ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</i>	<i>9</i>
<i>ITEM 7: TYPES OF CLIENTS.....</i>	<i>10</i>
<i>ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</i>	<i>10</i>
<i>ITEM 9: DISCIPLINARY INFORMATION .....</i>	<i>17</i>
<i>ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</i>	<i>17</i>
<i>ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</i>	<i>17</i>
<i>ITEM 12: BROKERAGE PRACTICES .....</i>	<i>21</i>
<i>ITEM 13: REVIEW OF ACCOUNTS.....</i>	<i>21</i>
<i>ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....</i>	<i>22</i>
<i>ITEM 15: CUSTODY .....</i>	<i>22</i>
<i>ITEM 16: INVESTMENT DISCRETION .....</i>	<i>22</i>
<i>ITEM 17: VOTING CLIENT SECURITIES .....</i>	<i>23</i>
<i>ITEM 18: FINANCIAL INFORMATION .....</i>	<i>23</i>

---

**Item 4: Advisory Business**

---

**Item 4.A. Description of Firm**

Cross Lake Partners LP (“**Cross Lake**,” “**Firm**” or “**Adviser**”), a Delaware limited partnership, was formed on April 4, 2018 by Michael Barr and Jonathan Shumaker, the principal owners of Cross Lake. The Firm intends to provide advisory services to real estate private funds as further described in this brochure.

**Item 4.B. Description of Advisory Services**

Cross Lake is a real estate investment advisory firm that provides advisory services on a discretionary and non-discretionary basis to private funds, referred to as Paulson Real Estate Recovery Fund, L.P. (“**Fund I**”) and Paulson Real Estate Fund II, L.P. (“**Fund II**” and, together with Fund I, the “**Funds**”).

Each Fund is formed to pool investment assets of its investors (each a “**Limited Partner**” and, collectively, “**Limited Partners**” and the Limited Partners, collectively with the General Partner (as defined below) shall be referred to as the “**Partners**”).

The Funds invest in residential and commercial real estate. On behalf of the Funds, Cross Lake will identify and undertake direct or indirect investments in real estate, including joint ventures with real estate operating partners, in the United States. Such investments may include single assets, portfolios, entity-level investments and debt securities. The Adviser’s scope of services includes identifying and acquiring real estate-related investments on behalf of Funds and subsequently managing such assets/portfolios.

The Funds seek to maintain a flexible investment strategy designed to focus on the most profitable opportunities. The Funds invest in residential and commercial real estate acquisitions, including residential subdivisions and masterplan communities, homebuilding ventures, condo developments, apartments, office buildings, retail properties, hotels and industrial properties.

The General Partner accesses investment opportunities for the Funds through the numerous industry relationships of the Firm’s senior management and through strategic relationships with operating partners.

Post-acquisition of real estate assets, the General Partner will seek to create additional value by actively managing assets in the Funds. Many assets often suffer from ownership’s lack of focus and unwillingness or inability to deploy capital or other resources. The Firm also sources opportunities through lenders that have assumed control of assets yet lack the development and operating expertise to manage projects.

The General Partner implements numerous strategies that the Firm’s senior management have executed over many years spanning different market cycles, locations and asset classes. To help employ these strategies, the Funds may enter into joint ventures with operating partners that possess the local market knowledge and expertise to carry out such strategies on a day-to-day

basis. Areas for value creation may include one or more of the following: (i) revenue enhancements, including renewed leasing and marketing efforts, reprogramming of product offerings to better meet current market demand and pursuit of additional ancillary revenue sources; (ii) potential cost savings, including more efficient staffing plans, contesting of real estate taxes, rebidding of service contracts and renegotiation of other obligations; (vi) cost-effective capital improvements that generate increased revenues; and (vii) add-on acquisitions to existing investments, such as adjacent properties or different tranches of the capital structure. The Firm intends to pursue investments that offer these potential value-add opportunities, while simultaneously considering the present use and condition of the underlying property to help minimize the risk when making an investment.

#### **Item 4.C. Tailoring Advisory Services**

The Firm's advisory services will be provided to each Fund pursuant to the terms of its formation and offering documents and will be based on the specific investment objectives and strategies described therein. The advisory services each Fund receives will be tailored to the specific investment objectives, the selected investment strategies and the characteristics of the property or portfolio of each Fund as described in its formation and offering documents. Funds may impose restrictions on investing in certain types of investments in accordance with achieving their investment objectives and strategies.

#### **Item 4.D. Wrap Fee Programs**

Not applicable. Cross Lake does not participate in a wrap fee program.

#### **Item 4.E. Assets Under Management**

As a new formed adviser, Cross Lake had \$913,664,000 in regulatory assets under management on a discretionary basis as of the date of this Brochure.

---

### ***Item 5: Fees and Compensation***

---

#### **Item 5.A. Description of Compensation Arrangements**

Cross Lake will be compensated for its services based on a variety of factors, including the investment strategy, the size of the overall portfolio and the nature and structure of Cross Lake's relationship with the Fund. Cross Lake's compensation generally includes management fees and may also include advisory fees, financing and/or syndication fees and incentive fees or carried interest. In most circumstances Cross Lake will set the fees that it will charge when it forms a Fund, prior to offering interests in the Fund to third party investors, based on its view of the market for such fees and services. Cross Lake may in the future provide investment advice to addition Advisory Clients and may negotiate different compensation arrangements with future clients than those described above.

Management Fees will typically be calculated as a percentage of the capital invested by each investor in the Fund and will typically be payable quarterly as described below.

Each Limited Partner will typically pay the Management Company an annual management fee (the “Management Fee”), payable quarterly in advance, equal to (a) 1.5% per annum of its Commitment during the Investment Period and (b) thereafter, 1.5% per annum of (i) such Limited Partner’s aggregate capital contributions less (ii) the aggregate amount of such Limited Partner’s capital contributions with respect to the portion of each investment that has been disposed of and the proceeds thereof have been distributed to the Partners or completely written-off.

Advisory fees, financing and/or syndication fees, acquisition fees and disposition fees, if applicable, will typically be calculated as a percentage of the specific transaction value and payable at the closing of such transaction. To the extent the activities of any employee of the Firm or any business activities of the Firm regarding a syndication would require licensing or registration, the Firm will undertake to obtain and maintain the appropriate licensing or registrations to perform those functions or business activities.

Cross Lake or its affiliates may also receive incentive fees as a component of the overall compensation that the Firm would receive for its services. These fees will typically be based on agreements with the Funds and calculated as a specified portion of the return that exceeds a realized return threshold identified in the Funds’ formation and offering documents. Any incentive fees charged will be structured to comply with Rule 205-3 under the Investment Advisers Act of 1940, as amended (“**Advisers Act**”).

#### *Conflicts Related to Valuation and Fees*

In most circumstances Cross Lake will set the fees that it will charge when it forms a Fund, prior to offering interests in the Fund to third party investors, based on its view of the market for such fees and services. As a result, Cross Lake’s fees may not reflect negotiation with a third party, which represents a conflict of interest between Cross Lake and the Fund.

#### **Item 5.B. Manner of Fee Payment**

The manner in which Cross Lake is paid for its services will vary by Fund and type of service provided and will be documented in the advisory agreement with each Fund and disclosed in the offering documents for each Fund. Fees may be invoiced directly to investors, deducted from investor capital contributions or paid from the Funds’ cash on hand. The Fund may also offset and reduce amounts otherwise distributable to a Limited Partner in order to pay the Management Fee to the Management Company.

Fees will be payable periodically depending on the nature of the fee. For example, management fees will generally be payable on a quarterly basis; transaction fees (such as advisory fees, financing and/or syndication fees, acquisition fees and disposition fees) will generally be payable within a certain period of time following the closing of a transaction; and incentive fees will be payable upon the realization of a capital event such as the sale of assets, typically after an investors’ specified return threshold for a deal has been reached.

#### **Item 5.C. Other Fees Clients May be Charged**

The Funds, except as noted below, will typically bear all expenses related to the formation of the

Fund, the acquisition and disposition of the Funds' investments and the management, ownership, leasing, development or redevelopment of the Funds' investment portfolio, including fees payable to service providers other than Cross Lake in addition to those paid to Cross Lake as described in Item 5.B above. Each Funds' formation and offering documents will describe the fees and expenses payable by the Fund.

The Firm will typically be entitled to withhold from amounts otherwise distributable by a Fund reserves for the proper operation of the Fund, including for the current or anticipated expenses and liabilities of the Fund (including fees or other amounts payable to Cross Lake), and amounts in respect of any required tax withholding.

#### *Fund expenses generally*

Expenses borne by Funds (and therefore, its investors) will typically include fees and out of pocket expenses directly related to the due diligence investigation of its investments (including, if the Fund has investment objectives that include the acquisition of additional investments, the cost of investigating any subsequent investment opportunity, whether or not consummated), the acquisition, disposition, ownership, financing, leasing, development or redevelopment of its investments, including real estate transfer taxes, brokerage fees, title premiums, the cost of engineering and environmental studies, income and other taxes, loan commitment fees and other loan fees, interest charges, fees and expenses of auditors and counsel, insurance, litigation expenses, expenses associated with the preparation and distribution of reports to investors and other appropriate expenses, such as business-related travel and lodging (including business-class air and train travel), and other expenses as permitted by the Funds' formation and offering documents.

#### *Property management expenses*

Fees and expenses borne by Funds' (and therefore, their investors) may also include fees and expenses for services related to property management, bank custody, audits, tax filing preparation, broker commissions and other real estate transaction fees related to the operation of the Funds' investment portfolio. In the case of property management fees, while Cross Lake may manage properties on behalf of its Funds, Cross Lake will typically hire (at the cost of the Fund) un-affiliated property managers (or property managers affiliated with joint venture partners of the Fund) on behalf of the Fund to manage the individual properties owned by that Fund, although in the future Cross Lake or its affiliates may provide such services. Property management agreements may include a separate allocation of costs to be charged to the Fund for the reimbursement of salaries and other compensation and benefit costs of employees dedicated (in whole or in part) to the property, as well as hourly charges intended to compensate such manager for the time of its internal maintenance staff or of its internal legal, accounting, engineering, architectural and other professional or administrative personnel that would otherwise be obtained through unaffiliated service providers as a direct charge to the Fund.

#### *Development expenses*

If a Fund engages in development or redevelopment of its properties, the expenses for which it will be responsible will include all costs incurred under the construction contracts relating to such development or redevelopment, and all architectural, engineering, licensing and legal fees and expenses, insurance premiums, interest and marketing costs.

Please refer to Item 12 for additional information regarding the factors Cross Lake will consider in selecting brokers for Fund transactions and in determining the reasonableness of their compensation.

#### *Temporary investments*

The Funds will also be responsible for fees associated with its temporary investments of cash pending investment in real estate assets or distribution to investors, including brokerage or bank accounts opened on behalf of the Fund, which would generally include brokerage fees and commissions, general account maintenance fees, statement delivery charges and transaction charges. In addition, Funds will bear the cost of annual audit reviews of its accounts, as well as any fees associated with tax preparation and filings made with the applicable federal, state and local tax authorities.

#### *Organizational and offering expenses*

The Funds will typically bear all of the legal and other organizational and offering fees and expenses incurred in the formation of the Funds and their investment subsidiaries and affiliates, including the cost of forming the Firm or managing member of such Funds (including the cost of documenting the allocation of carried interest or performance fees among the Principals and employees of Cross Lake), the cost of offering interests in the Fund to investors, including placement fees, finder fees and commissions and the travel and entertainment expenses of Cross Lake employees (including business-class air and train travel). Organizational and offering expenses may be subject to a cap, and may include out-of-pocket and internal expenses of Cross Lake and its agents incurred in the formation of a Fund.

#### *Cross Lake expenses*

Cross Lake will bear all of the ordinary day-to-day expenses incidental to its administration of the Fund portfolios, including its own general overhead and compensation of the Firm's employees, but not including Cross Lake's legal fees and costs incurred in connection with the formation and offering of Funds, which may be borne by the Funds. Funds will bear the cost of pursuing prospective investments that are not ultimately consummated, provided those investments were pursued for the account of a Fund in accordance with its investment objectives as disclosed in its formation and offering documents.

#### **Item 5.D. Timing of Fee Payments**

Cross Lake will be paid for its services, generally on a quarterly basis in the case of management fees, or as the fees are earned in the case of transaction fees. Incentive fees will be payable upon the realization of a capital event such as the sale of assets, typically after the Funds' specified return threshold has been reached.

#### **Item 5.E. Receipt of Compensation for Sales**

Cross Lake or its affiliates may purchase investments with the intention of transferring those investments to a Fund once it has been formed. Typically, the investment will be transferred to the Fund at cost plus a carrying charge, or otherwise at fair value. In each case the price or method for determining the price for such transfer will be disclosed in the Funds' formation and offering documents. Similarly, if the Principals fund a Funds' acquisition of an investment, upon subsequent investments by third party investors into the Fund, the Principals may sell a corresponding portion of its interest in the Fund or may receive as a special distribution an amount representing its original investment amount plus a carrying charge (or it may otherwise receive fair value for its interest), in each case as disclosed in the Funds' formation and offering documents.

Cross Lake does not otherwise charge commissions or markups on transactions entered into by Funds.

In the future, should Cross Lake or persons associated with Cross Lake engage in activities requiring additional licenses or registrations beyond those currently held, Cross Lake will undertake to obtain and maintain (or cause its associated persons to obtain and maintain) the appropriate licensing or registrations to engage in those activities.

---

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

---

Cross Lake or its affiliates may earn performance-based fees from or receive "carried interest" in its Funds. Under these payment structures, Cross Lake generally would participate in the property or portfolio return once the Fund receives a total return in excess of a specified threshold, which is usually based on an internal rate of return. Funds may allocate a portion of distributions (including both operating distributions and distributions attributable to sales and/or refinancing proceeds) to Cross Lake based on a distribution formula as set forth in the respective Fund formation and offering documents.

These performance-based fees or carried interest may create an incentive for the Firm to pursue investments that are riskier or more speculative than would have been the case in the absence of such allocation to the Firm. Cross Lake believes that the following factors help to mitigate this potential conflict:

- Cross Lake or its affiliates will typically maintain a sponsor capital investment in, or commitment as an investor to, each Fund under terms and conditions described in the formation and offering document for the Fund; and
- Each Fund will typically be limited to investment in real estate that meets the investment parameters of the Fund, with a concentration limit to any one particular investment.

---

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

---

The Funds sponsored by the Firm will typically be structured as private funds created to hold specific investments. Investors in the Funds will typically be institutional, high-net-worth individual and family office investors that are accredited investors under the Securities Act of 1933 and “qualified purchasers”, as defined by the Investment Company Act of 1940 (the “**1940 Act**”).

Institutional investors in each Fund may include public and private pension funds, insurance companies, asset management companies, banks and sovereign wealth funds. Knowledgeable employees (within the meaning of the 1940 Act) of Cross Lake may also be permitted to invest on terms to be determined by Cross Lake and set forth in the relevant offering documents.

---

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

---

**Item 8.A. Methods of Analysis and Investment Strategies**

The investment objectives of our Fund clients are discussed in response to Item 4.A. above.

Cross Lake intends to focus on the acquisition of residential and commercial properties in the United States. Target investments will include single asset, portfolios, entity-level and debt securities.

Cross Lake senior management team monitors and researches market conditions on an on-going basis to determine the appropriate design and, if appropriate, adjustments to the Firm’s investment strategies. This investment process includes both a macro (“top-down”) and a micro (“bottom-up”) approach. A top-down approach is used to monitor local, regional, national and global economic and investment trends and to guide overall investment strategy. A number of third-party databases and econometric forecasts are utilized to refine the strategy and to guide decision-making. Once appropriate investment themes have been identified, a bottom-up approach is used to closely examine the fundamentals impacting the specific real estate investment opportunity at a “micro” or submarket level. The bottom-up approach is also used, in some cases to uncover and to identify investment opportunities or risks that may not otherwise be recognized by the wider marketplace.

Cross Lake’s acquisition team is responsible for identifying potential investments. The team leverages its network of industry contacts to generate opportunities that are consistent with the Firm’s selected investment themes and that meet the Firm’s criteria for size, location, property type and expected financial returns. Once an asset is determined to be suitable for investment, the team further refines its preliminary analysis, with a particular focus on the potential of the property to produce attractive risk adjusted returns.

During the acquisition process, Cross Lakethe Firm conducts legal, economic and physical due diligence on all potential investments as part of the underwriting process. Legal due diligence, including title and survey work, is conducted by external counsel. The economic due diligence process is led by our Chief Investment Officer, who is responsible for sourcing investment opportunities, working in conjunction with senior management and legal counsel. Economic due diligence includes a review of leases and tenant correspondence, tenant receivables, operating expenses, real estate taxes, recent capital expenditures and any pending litigation. Physical due diligence includes not only a physical review of the property and documents supporting the operation of the property, but environmental conditions as well.

Based on the economic, physical and legal information related to a prospective investment obtained during the due diligence process, the Firm's acquisition team develops detailed pro forma cash flow analyses of the asset or portfolio using historical property financial information as well as market research and comparable property analyses. Pro forma financial projections are developed for the anticipated hold period of the asset and include an estimated assumption for the asset's realizable terminal value. The cash flow analyses include estimated revenue projections (net of revenue loss due to vacancies and bad credit among tenants), operating expenses, capital expenditures and interest expense related to debt financing. This financial pro forma is used to calculate the estimated current and total return (calculated on an Internal Rate of Return or IRR) to investors in the asset or portfolio.

Cross Lake may implement an Investment Committee that will be comprised of senior professionals of the Firm. The Investment Committee will approve acquisitions and dispositions prior to the execution of a purchase or sale on behalf of a Fund.

#### **Item 8.B. Material Risks Involved for Cross Lake's Strategies**

Investment in the Funds involves significant risks and is suitable only for investors who can bear the economic risk of the loss of their entire investment and who have limited need for liquidity in their investment. There can be no assurance that the respective Funds will achieve their individual investment objectives. Investment in the Funds carries with it the inherent risks associated with investments in real estate. Each prospective investor should carefully review the applicable offering documents and the agreements referred to therein prior to deciding to invest in any Fund.

#### **Item 8.C. Material Risks Involved in Investing in Real Estate**

The Firm monitors risks to ensure that appropriate risk mitigation measures are in place and being executed. The ability to manage risk is critical to achieving targeted returns to investors. Prospective investors should be aware of certain risks, including the following:

##### ***Risks Related to the Funds' Investments***

***Distressed Investments.*** The Funds may purchase, directly or indirectly, investments that are experiencing significant financial or business distress, including securities, companies or real estate assets involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these

investments ordinarily remain unpaid unless and until the investment is reorganized and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the General Partner's access to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary to succeed with investments experiencing significant business and financial distress is unusually high. There can be no assurance that the General Partner will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a Fund investment, the Fund may lose its entire investment or may be required to accept cash or securities with a value less than the Funds' original investment.

*Investments in Undervalued Assets.* The Fund may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there can be no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Funds' investments may not adequately compensate limited partners for the business and financial risks assumed. The Funds may be forced to sell, at a substantial loss, assets that are not, in fact, undervalued. In addition, the Funds may (i) be required to hold such assets for a substantial period of time before realizing their anticipated value and/or (ii) finance (or cause its investments to finance) such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

*Third Party Involvement.* Certain of the Funds' investments may be made as a co-venturer or partner with the seller of the property, an affiliate of the seller, an investor in the Fund or other third parties. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) a Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venture or partner of a Fund may at any time have economic or business interests or goals that are inconsistent with those of such Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to the Funds' investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances a Fund may be liable for actions of its co-venturers or partners. In addition, the Funds may rely upon the abilities and management expertise of a co-venturer or partner. It may also be more difficult for a Funds to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments. The Fund may grant co-venturers or partners joint approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could delay the execution of the business plan for the investment or require a Fund to

engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment. As a result of these risks, such Fund may be unable to fully realize its expected return on any such investment.

*Financial Fraud.* Instances of fraud and other deceptive practices or bad acts committed by joint venture partners or senior management of certain companies or real estate assets in which a Fund invests may undermine the General Partner's due diligence efforts with respect to such investments, and if such fraud is discovered, negatively affect the valuation of the Funds' investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact the Funds' investment program.

*Controlling Person Liability.* The Funds may have controlling interests in some of their investments in real estate companies and real estate-related companies. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Funds might suffer a significant loss.

*Inability to Influence Management.* Although the Funds may acquire or obtain the right to acquire management rights in connection with the Funds' investments (including, without limitation, in real estate joint ventures and/or of minority positions), depending on certain factors (including the particular market, asset class, location and structuring of investments) the Funds may not have an active role in the day-to-day management of their investments, including investments in respect of which one or both has management rights. The success or failure of the Fund investments will depend to a significant extent on the management of the underlying assets.

*Risk of Borrowing.* If a Fund investment does not generate sufficient cash flow from operations, the investment may not be able to repay borrowings, or the Fund may be forced to sell such investment at a disadvantageous time to repay borrowings, which could adversely affect the Funds' performance. Moreover, in these circumstances, a Fund may be forced to sell other investments at disadvantageous times, or use cash flow or proceeds from such investments, to repay borrowings on such other investments and such other sales would likely be of the Funds' more liquid assets first, thus increasing its concentration of investments that are not liquid or readily marketable. In addition, if a Fund makes an investment with the intent of financing or refinancing a portion of such investment, there is a risk that such Fund will be unable to successfully complete such financing or refinancing. This could lead to such Fund having a larger amount of capital invested in an investment than it may have originally anticipated and thus reduce portfolio diversification.

*Investments in Real Estate Debt.* The Funds may invest in a variety of real estate-related debt investments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real property investments generally, the Funds will be subject to a variety of risks in connection with such debt investments, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury

laws and the imposition of common law or statutory restrictions on the Funds' exercise of contractual remedies for defaults of such investments.

*Risks of Acquiring Real Estate Loans.* Many of the properties that will secure loans originated or purchased as investments by a Fund may suffer varying degrees of financial distress or may be located in economically distressed areas. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, replacement "take-out" financing will not be available. A Fund may find it necessary or desirable to foreclose on some, if not many, of the loan investments secured by real estate. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against the lender(s), including without limitation, numerous lender liability claims, counter claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states as well as non-U.S. countries, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings the borrower may file for bankruptcy, resulting in further delay. Foreclosure litigation tends to create a negative public image of the mortgaged property and may result in disruptions to the ongoing leasing, management and operation of the property.

*Nonperforming Loans; Foreclosure Process.* Real estate loans held by the Funds may be at the time of their acquisition, or may become after origination, participation or acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a reduction in the interest rate and a writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement "takeout" financing will not be available. It is possible that the General Partner may find it necessary or desirable to foreclose on collateral securing one or more real estate loans originated or purchased by the Fund. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in the disruption of the ongoing leasing and management of the property.

*Interest Rate Risks.* The Funds' investments will have exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of one or more of the Funds' investments. Changes in the general level of interest rates can affect the Funds' income by affecting the spread between the income on its assets and the expense of its interest-bearing liabilities, as well as, among other things, the value of its interest-earning assets, the capitalization rate at which its assets are valued in the market and its ability to realize gains from the sale of investments.

*Securities Generally.* The Fund may purchase securities of, and make investments in, real estate operating companies that acquire, own, service and manage real estate. Investments in such securities are subject to the risks associated with real estate and the risks of investments in securities generally. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of the Fund to realize profits. Certain of real estate operating companies may be experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganizations and liquidation proceedings. Although such investments may produce significant returns to the Funds, they involve a high degree of risk over a potentially lengthy period of time, as well as less liquidity than many other investments. Investment in these types of securities requires sophisticated analysis and there can be no assurance that the Funds will accurately predict various factors that could affect the prospects of a successful restructuring.

*Investments in Private Companies.* The Fund may from time to time invest in private real estate companies (i.e., companies without any publicly-traded securities). Investments in private companies are subject to various risks, including the illiquidity of the investment being made. The Funds may be unable to sell its interest in a private company because there may be no market for such interests. In addition, when investing in a private company, there is no market efficiency or testing in order to determine the correct price for interests in the company. Therefore, the Funds could pay more for interests in a private company than their intrinsic value. Typically, private companies will have very limited reporting obligations, so there may be limited or no information available to investors such as the Funds regarding, among other things, a private company's business prospects and results of operations. Private companies frequently have less oversight from independent directors, regulatory agencies and others and less seasoned management teams.

*Risks of Multi-Step Acquisitions.* In the event a Fund chooses to effect a transaction by means of a multi-step acquisition, there can be no assurance that the remainder can be successfully acquired. This could result in a Fund having only partial control over the investment or partial access to its cash flow to service debt incurred in connection with the acquisition.

*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 laws 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 as to any property are generally not limited under such laws 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 contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Funds' return from such investment.

*Harmful Mold and Other Air Quality Issues.* When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of the Funds' properties could require a Fund to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose a Fund to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

*Americans with Disabilities Act and Similar Laws.* Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations must meet federal requirements related to access and use by disabled persons. If one or more of the properties in the Funds' portfolio does not comply with the ADA, then a Fund may be required to incur costs to bring the property into compliance, which may or may not have been foreseen at the time of acquisition. Future changes to federal, state and local laws also may require modifications to the Funds' properties, or restrict the Funds' ability to renovate its properties. The Funds cannot predict the ultimate cost of compliance with the ADA or other legislation. If a Fund incurs substantial costs to comply with the ADA and any other similar legislation, the Funds' financial condition, results of operations, cash flow, cash available for distribution and ability to satisfy its debt service obligations could be materially adversely affected.

*Casualty and Condemnation.* Investments in real estate are subject to the risks of partial or total condemnation in accordance with applicable law or regulation and casualty, whether arising from destruction by fire, earthquake, flood, hurricane or otherwise. In either case, the Funds' investments (depending on such investments' status as lender, borrower or equity owner) may be subject to one or more of the following liabilities: (i) lenders may require prepayments of outstanding loans with any proceeds arising from a casualty or condemnation recovery event (i.e., insurance coverage), (ii) insurance coverage may not be sufficient to cover renewal of an investment, (iii) renovations or developments with respect to an investment may be delayed and (iv) a seller may bear the risk of loss for such casualty or condemnation in connection with the disposition of an investment through the date of disposition.

*Insurance May Not Cover All Losses.* Uninsured and underinsured losses at the Fund level or investment level could harm the Funds' overall financial condition, results of operations and ability to make distributions to its Limited partners. Various types of losses, such as losses due to wars, riots, adverse nuclear reactions, terrorist acts, earthquakes, floods, hurricanes, pollution or environmental matters, generally are either uninsurable (or not economically insurable) or may

be subject to insurance coverage limitations. Should an uninsured loss or a loss in excess of insured limits occur, a Fund could lose all or a portion of the capital it has invested in an investment, as well as the anticipated future revenue from the investment. These same risks apply to any capital deployed by an investment of a Fund. In that event, a Fund and/or its investment might nevertheless remain obligated for any notes payable or other financial obligations related to the investment, in addition to obligations to a Fund's and/or its investment's ground lessors, franchisors and managers. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the investments pledged as collateral for loans, and other factors might also keep such Fund and/or its investment from using insurance proceeds to replace or renovate an investment after it has been damaged or destroyed. Under those circumstances, the insurance proceeds such Fund and/or its investment receives might be inadequate to restore such Fund's and/or its investment's economic position on the damaged or destroyed investment.

---

***Item 9: Disciplinary Information***

---

**Item 9.A., 9.B., and 9.C.**

Cross Lake and its supervised persons have no reportable disciplinary events to disclose.

---

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

---

**Item 10.A. Broker-dealer Activities**

Not Applicable. The Firm is currently not applying to register as a broker-dealer and currently does not intend to do so.

**Item 10.B. Commodity or Futures Industry Affiliations**

Not Applicable. Neither Cross Lake, nor any of its management persons, are applying to register with the National Futures Association and do not intend to.

**Item 10.C. Affiliate Relationships**

Paulson Property Management LLC and Paulson Property Management II LLC are affiliates of Cross Lake and serve as general partners to Fund I and Fund II. In addition, Cross Lake Partners LLC is an affiliate of Cross Lake.

**Item 10.D. Investment Adviser Recommendations**

Not Applicable. The Firm does not recommend or select other investment advisers for its Funds.

---

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

---

**Item 11.A. Code of Ethics**

All Access Persons of Cross Lake, as described in the Firm's Code of Ethics, may only purchase and sell securities in accordance with the Firm's Code of Ethics to which all supervised persons / associated persons are subject. This policy is monitored by the Chief Compliance Officer.

Access Persons are permitted to maintain personal brokerage accounts, subject to the Code of Ethics and personal trading policy.

The Code of Ethics includes the following:

- Statement of the standard of business conduct.
- Limits on gifts and entertainment.
- Limits on political contributions.
- Limits on personal trading.
- Requirements to pre-clear any purchases or sales of securities for personal accounts.
- Requirements regarding the reporting of personal holdings.
- Requirement to acknowledge, in writing, having received and read a copy of the Code of Ethics.

A copy of the Firm's Code of Ethics is available to the Firm's clients and to investors and prospective investors in Funds upon request.

#### **Item 11.B. Participation or Interest in Client Transactions**

Cross Lake will solicit investments from investors in the newly formed Funds it sponsors. The decision as to whether or not to invest will be made by the investor or an independent fiduciary of or consultant to the investor. The Firm does not act as the investment adviser to such investors.

##### *Participation or interest in client transactions*

Typically, Cross Lake Principals or their affiliates will initially commit their own funds to the acquisition of an investment for the account of a new Fund. Subsequently, either before or after closing of such Fund, Cross Lake will solicit investment from other investors into such Fund, with the proceeds of such new investment reducing the financial commitment the Principals in the specific transaction and their relationship to the Firm will be disclosed to investors as part of the offering of interests in the Fund.

Cross Lake, the Principals, and their respective affiliates will typically retain a capital commitment or investment in each Fund alongside third-party investors. In connection with such investments, each Fund may agree to reduce all or a portion of the management fee and performance fee payable with respect to investments or commitments made by the Firm, the Principals, and their respective affiliates.

Please see Item 6 - Performance Based Fees and Side-by-Side Management for additional information regarding our receipt of performance-based fees.

### *Fee Structure*

Because management fees are based on invested capital, the fee structure may create an incentive to deploy capital when Cross Lake may not otherwise have done so; and Cross Lake may receive the same level of fees even if the value of the assets has otherwise declined, there is a drop in tenant occupancy or other adverse conditions affect the property.

Cross Lake has adopted valuation policies and procedures that will enable the investments to be valued fairly. Nonetheless, the process of estimating asset values will remain (i) inherently subjective and reliant on a variety of assumptions, including assumptions about projected cash flows for the remaining holding periods and (ii) based in large part on information at the time of the appraisal, while market, property and other conditions may change materially after that date. Furthermore, real estate and certain real estate-related assets generally cannot be marked to an established market or to the price of readily tradable assets.

As discussed above in Item 6, Cross Lake or its affiliates typically expects to earn performance-based compensation with respect to its Funds. The existence of the performance-based compensation may create an incentive for the Firm to cause such clients to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

### *Affiliated service providers*

Cross Lake and its affiliates may choose to provide services to the Funds with respect to property management, leasing, brokerage, financing, development and similar services, *provided* that the fees for such services have been disclosed in connection with each investor's initial investment in the Fund or are otherwise on arms' length terms approved by an advisory board comprised of investor representatives.

### *Expense/fee reimbursement*

Funds may reimburse Cross Lake for its expenses in connection with the organization of the Fund and the acquisition of investments, as well as ongoing costs of managing and disposing of investments, including Cross Lake's travel expenses (including business-class air and train travel) and meals, lodging and entertainment expenses. This creates a conflict of interest between the Fund and Cross Lake because Cross Lake has an incentive to complete the formation and offering of a Fund so that it can obtain a reimbursement of expenses that it will otherwise be required to bear for its own account.

### *Diverse membership*

Investors in the Funds may have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests among the investors may 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 may arise in connection with decisions made by Cross Lake or its affiliates, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. Where such conflicts arise, the Firm will act in what it considers to be the best

interests of the Fund, without regard to the interests of individual investors, except as required by the Funds' formation and offering documents.

#### *Side letter agreements*

The Firm will, from time to time, enter into side letter arrangements with some investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information and reporting rights and liquidity or transfer rights. Except as otherwise agreed with an investor and except in the case of terms that could have a material adverse effect on other investors in the Fund, Cross Lake and its affiliates will not be required to disclose the terms of side letter arrangements to other investors in the same Fund.

Typically, each Fund will establish an advisory board, consisting of representatives of investors. A conflict of interest may exist when some, but not all limited partners are permitted to designate a member to the advisory board. The advisory board may also have the ability to approve matters presenting conflicts of interests with respect to Cross Lake and the applicable Fund, which could be disadvantageous to the investors, including those investors who do not designate a member to the advisory board.

#### *Other potential conflicts*

Cross Lake and its Funds may engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest as between the Firm and a Fund. In the event of a significant dispute or divergence of interest between clients and the Firm, the parties may engage separate counsel in the sole discretion of the Firm, and in litigation and other circumstances separate representation may be required.

The Firm and its Funds from time to time may engage other common service providers. In certain circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to the Firm or to the Funds. This may result in Cross Lake or certain of its Funds receiving a more favorable rate on services provided to it by such a common service provider than those payable by Funds, or the Firm receiving a discount on services even though its clients receive a lesser, or no, discount. This creates a conflict of interest between the Firm, on the one hand, and the Funds, on the other hand, in determining whether to engage such service providers, including the possibility that the Firm may 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.

#### **Item 11.B., 11.C., and 11.D.**

Cross Lake prohibits investments in the personal account of any Firm personnel in an investment that is currently held or intended to be held by Funds, except for investment by the Firm and its affiliates (including the Principals) in Funds alongside the other investors in the Funds or the acquisition of an investment for the account of a Fund, as described in Item 4.B above.

---

***Item 12: Brokerage Practices***

---

Cross Lake currently does not engage in securities trading transactions on behalf of its Funds or utilize the services of securities broker-dealers for transaction related services. If it requires the services of a securities broker-dealer, the Firm will seek to obtain best execution on an overall basis. The Firm will aggregate such of those orders as it deems appropriate and in accordance with the Funds' organizational documents and in the best interests of the Funds.

On behalf of clients, the Firm engages service providers and real estate brokers for investment sales, property management, leasing, debt financing and other services. The Firm has the investment discretion to hire third party service providers, including real estate brokers, and to negotiate the commissions paid to those providers. In recognition of the Firm's responsibilities as a fiduciary and in keeping with its level of operational practices and efforts to maximize the value of Fund accounts, Cross Lake's primary objective is to seek to obtain the best possible execution of real estate transactions for its Funds' accounts on an overall basis considering all circumstances. In engaging brokers and service providers, Cross Lake will consider a number of factors including: execution capability, commission rates, knowledge of markets, experience, reputation, current market conditions and marketing support.

---

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

---

**Item 13.A. and 13.B.**

Cross Lake's team of investment professionals (including its Principals) actively monitors and reviews the portfolio investments of the Funds. This review includes performance, client objectives and guidelines and other criteria relevant to the types of real estate assets held in each Fund.

On an annual basis, Cross Lake's senior management will prepare a strategic plan for each Fund for the upcoming year that will be reviewed in order to establish performance standards and appropriate benchmarks. As part of the annual review of each Funds' portfolio, the portfolio's performance will be assessed and compared to the budget, benchmarks and strategic plan for that portfolio and against the financial performance of the portfolio in prior years. Strategic plans typically will be focused on the following items:

- Review and alignment of client objectives
- Performance against prior year's objectives
- Major lease expiration schedule and debt maturity schedule for the portfolio
- Updated cash flow return projections
- Updated property valuations
- Hold/sell recommendations
- Key initiatives to be accomplished during the upcoming year

**Item 13.C.**

As applicable and set forth in the respective offering documents, in addition to the annual plans described above, Cross Lake's management will prepare quarterly reports for Funds and their investors. The reports will include unaudited financial statements, which will be prepared and reviewed by internal accounting professionals. Year-end financial statements will be audited by certified public accountants, usually one of the "big-four" accounting firms, all of which are independent according to AICPA standards. Capital items, including paid-in capital, invested capital and distributions, will be reviewed by internal accounting professionals as transactions occur to ensure that they are completed in accordance with the Fund joint venture agreements, fund agreements and/or bylaws.

In general, written quarterly reports and financial statements will be issued to clients between 60-90 days after quarter end.

---

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

---

**Item 14.A.**

Cross Lake currently does not engage in securities trading transactions on behalf of its Funds or utilize the services of securities broker-dealers for transaction related services. If it requires the services of a securities broker-dealer, Cross Lake will seek to obtain best execution on an overall basis.

**Item 14.B.**

Cross Lake may enter into arrangements with placement agents, or solicitors, where in return for a referral of an investor to a Fund, Cross Lake would pay the placement agent a one-time or ongoing fee based upon the value of the referral's investment into the applicable Fund. Any such arrangement with a placement agent will be disclosed to the applicable investor. Any such fees would be the responsibility of Cross Lake and would not be reimbursed by the Fund.

---

***Item 15: Custody***

---

Any investments that are represented or evidenced by a physical certificate will be held at an unaffiliated qualified custodian, as required by the rules adopted under the Advisers Act. The Firm will provide investors in each Fund with annual audited financial statements prepared by an independent public accountant subject to the supervision of the Public Company Accounting Oversight Board, together with the reports from Cross Lake described in Item 13 of this brochure.

---

***Item 16: Investment Discretion***

---

Cross Lake typically has full discretion over transactions in the portfolios of the Funds, although as described above, the Funds typically have limited mandates to make additional investments. This authority will be granted to Cross Lake by means of the execution of the relevant organizational and/or advisory agreements that set forth the scope of the Firm's discretion with

respect to each Fund. Cross Lake may also be engaged on a non-discretionary basis by advisory clients to whom the Firm may make investment recommendations under an advisory agreement for that client.

---

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

---

Cross Lake generally does not intend to invest in the equity securities of companies that regularly conduct shareholder meetings and solicit proxies for shareholder voting. However, Cross Lake will adopt a proxy policy should a proxy solicitation be received or to handle any class actions. Should any matters arise that require a vote of the holders of any securities or investments held by the Funds, senior management of Cross Lake will review the issue or issues to be voted on and cast their votes in the best economic interest of the Funds. A copy of the proxy voting policy and a record of all votes cast by Cross Lake on behalf of the Funds may be obtained by mailing the request to the attention of Jonathan Shumaker at Cross Lake Partners LP 1166 Avenue of the Americas, New York, NY 10036 or calling 212-599-6336.

---

***Item 18: Financial Information***

---

**Item 18.A.**

Not Applicable. Cross Lake does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

**Item 18.B.**

Cross Lake is not aware of any financial condition that is reasonably likely to impact its ability to meet its contractual commitments to Funds.

**Item 18.C.**

Not Applicable. Cross Lake has not been the subject of a bankruptcy petition at any time during the past ten years.