



National Real Estate Advisors, LLC

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Part 2A of Form ADV: Firm Brochure

March 30, 2020

This Brochure provides information about the qualifications and business practices of National Real Estate Advisors, LLC ("National"). If you have any questions about the contents of this Brochure, please contact Ivy Wafford Duke, National's Chief Compliance Officer.

National is registered with the U. S. Securities and Exchange Commission ("SEC") as an investment adviser. Registration as an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information you can choose to use in determining whether to hire or retain an investment adviser. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Additional information about National is also available on the SEC's website at: www.adviserinfo.sec.gov.

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Item 2. Material Changes

This Brochure, dated March 30, 2020, serves as an update to our brochure dated March 31, 2019. This Brochure contains routine annual updates to the prior brochure, as well as certain other updates and important disclosures regarding items such as certain practices of National, potential material conflicts, fee and expense payments by clients, and key risk factors.

The following material changes have occurred since the filing of National's last annual Brochure dated March 31, 2019.

None.

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Item 4. Advisory Business

National Real Estate Advisors, LLC (“National”) provides investment management and advisory services focusing on investing in equity and debt interests in real estate. National seeks to invest and reinvest its clients’ assets in commercial real estate properties or entity level companies which develop, own and operate real estate properties located in varying geographic areas in the United States. For a client's existing stabilized real estate assets, National seeks to maximize net income from rents and property operations and dispose of investments when it is believed that maximum value can be received. National seeks to invest its clients’ available cash (from investment activities and new capital contributions) primarily in equity and debt investments in new developments and redevelopments of properties that offer excellent opportunities to create current income and capital appreciation, while also creating good jobs and incorporating responsible contractor policies relative to the use of union labor to the greatest extent possible consistent with fiduciary responsibility requirements under the Employee Retirement Income Security Act of 1974 (“ERISA”).

Organization and Governance. National was initially formed as a limited liability company in October 2008. It is a wholly-owned subsidiary of NREA Holdings, LLC. NREA Holdings, LLC is wholly-owned by the National Electrical Benefit Fund (“NEBF”), a Taft-Hartley pension plan established to provide retirement benefits to electrical workers and contractors. National was established for the purpose of making available both to NEBF and other pension plans and institutional clients the real estate investment skills, experience and expertise developed over the years by what had been NEBF’s in-house real estate investment professionals. Before National commenced operations on January 1, 2010, most senior officers of National had been long-time employees of NEBF’s in-house real estate investment department, and all senior personnel involved in real estate within NEBF’s internal department became employees of National. National is governed by a Board of Directors appointed by NEBF. All Board members have extensive experience in real estate investments, finance and/or management. National’s executive officers are Jeffrey J. Kanne (President & CEO), Kevin Verdi (Chief Investment Officer), Laurie Mullett (Chief Financial Officer), and Jeanne Ayivorh (Chief Operating Officer).

Nature of Advisory Services. National offers and provides discretionary real estate advisory services and expertise to eligible institutional clients and other investors. National identifies investment opportunities for its clients and, in its discretion, acquires, develops, manages and sells investments on behalf of its clients. National provides investment advisory services to its clients pursuant to the terms and conditions of an investment management agreement, which sets forth the nature of services to be provided to the client, fee arrangements, and any specific investment guidelines or restrictions pertaining to client engagements.

Amount of Client Assets. As of December 31, 2019, National managed \$3.2 billion of its clients’ assets on a discretionary basis.

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Item 5. Fees and Compensation

As a general matter, subject to specifically negotiated agreements with clients, National typically charges the following fees:

Management Fees. For most advisory clients, the annual management fee is 1.15% per year on the first \$100 million of an investment, as calculated in accordance with the respective investment management agreement, and a 0.90% fee per year on the portion of an investment exceeding \$100 million. Certain stakeholder investors, including NEBF, pay fees at the 0.90% rate for the entire amount of their investment.

Incentive Fee. As a matter of common course, National's fee arrangements (excepting unique arrangements for limited purpose advisory engagements) include an incentive fee calculated based upon the performance of a client's account in relation to an agreed upon "benchmark". Please refer to the specific discussion regarding incentive fees in *Item 6 – Performance Based Fees and Side-by-Side Management*, below.

Fee Billing. The management fee is payable quarterly and will be prorated daily for partial calendar quarters. The specific manner in which fees are charged by and paid to National is established in the investment management agreement with the client. Clients elect to be billed directly or authorize National to withdraw fees from their accounts by way of share redemptions equivalent to fees due. *If clients elect to authorize National to have fees directly paid from client accounts, clients should review their billing invoices to verify fee calculations as reflected in their account statements provided by (as applicable) National or their account custodian.*

Valuation. Each client's management fee is calculated using the net asset value of the client's account, which is based on the fair market value of the underlying real properties, for equity investments, and "fair value", for debt investments. Because the valuation process allows for National to select the appraisers and in some cases to determine an interim valuation, conflicts of interest are possible wherein there could be an incentive for National to encourage an inflated fair value of assets. To mitigate this conflict, National has designed and adopted a valuation policy and procedures to ensure the fair value of assets and to prevent any undue influence of the valuation process. National retains a nationally recognized independent valuation firm to serve as an independent valuation consultant. This firm works with National's internal valuation manager to oversee the valuation process and ensure independent and unbiased valuations. The valuation consultant has proven expertise in the areas of property development undertaken by National's clients, has Members of the Appraisal Institute (MAI) staff to support National, and has experience in valuation work for financial reporting. The valuation consultant either prepares or reviews all quarterly fair value estimates prior to being utilized in determining the net asset value of the client's account. The valuation consultant also

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provides consulting services with respect to valuation best practices, ensuring National maintains a best-in-class fair value process, and ultimately certifies to National that the valuation policy, and related procedures, have been followed. National also meets industry standards and complies with Global Investment Performance Standards (GIPS) requirements.

The valuation policy requires that no less frequently than annually, independent state certified and MAI designated appraisers inspect and perform an appraisal for each of the client's real estate equity assets to determine fair value, except for properties in litigation, under contract for sale, or other properties where circumstances warrant that they be reasonably excluded. Annual appraisals are to be presented and reported in a detailed appraisal report format, and are to contain sufficient data, analysis and rationale to clearly understand the appraiser's conclusions. All appraisals must comply with the Uniform Standards of Professional Appraisal Practice (USPAP) and consider the three valuation methodologies – income capitalization (including a discounted cash flow), sales, and cost approaches. Appraisers will be rotated no less often than every three (3) years, unless there is a reasonable and documented reason for amending the standard three-year rotation. On each valuation date for which a detailed appraisal is not scheduled, the valuation consultant will prepare restricted appraisal reports, completed by MAI designated appraisers and in compliance with USPAP. In summary, all values are determined and confirmed pursuant to the above process by an independent third-party appraisal firm, on a quarterly basis, and reviewed and approved by National.

Other Fees. Apart from the management fee and incentive fee (if earned), those expenses incurred in connection with the management and advisory services, as applicable, may include, without limitation: (i) reasonable fees and expenses of any custodian appointed for the safekeeping of a client's cash, securities, loans, and other property; (ii) legal expenses; (iii) audit and accounting fees; (iv) expenses of revising, amending, or modifying the operating agreement; (v) costs and expenses of meetings of the members and of preparing, printing, and mailing quarterly and annual reports to the members; (vi) various expenses related to client investments, including, but are not necessarily limited to, legal fees, brokers' commissions chargeable to the client in connection with transactions to which the client is a party, costs incurred in doing business in any jurisdiction, appraisal fees, title company charges and any other expenses (including taxes) incurred in perfecting title (to the extent not paid by sellers); (vii) all costs and expenses (including taxes and travel) incurred in connection with the acquisition, disposition, development, monitoring, inspection, management, maintenance, repair, leasing and ownership of the real property assets of the client; (viii) the costs of third party appraisals or valuations in connection with the valuation of client assets; (ix) the costs of third-party performance return measurements (note that, while these costs are treated as client expenses, the resulting performance figures, in addition to being reported to the clients, are cited by National in marketing materials, presentations and similar matters); and (x) out-of-pocket expenses payable to third parties directly related to unsuccessful efforts to acquire or make an investment (i.e. "broken deals") for a client's account, such as appraisals, due diligence, travel expenses (subject to a limitation of \$200,000 --as

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adjusted for inflation from and after the commencement of the client's operations--in any one calendar year) and related legal fees (which are not subject to the foregoing cap).

Fees Paid in Advance. National does not currently engage in arrangements requiring the payment of fees in advance. Accordingly, a procedure for refunding prepaid fees is not relevant to National, other than in the rare instance in which fees were to be received by National Real Estate Development and required to be rebated to a client, as described (both as to policy and procedure) in detail in Item 11, below.

Affiliate Fees. As further described in Item 11, below, National utilizes the services of its development subsidiary, National Real Estate Development, LLC, in connection with client matters. Fees paid for services provided by National Real Estate Development are required to be on market-rate terms no less favorable to the advisory client or portfolio company than those which would be obtained in a transaction with an unaffiliated party. All such engagements are required to be presented to and evaluated and approved by National's Investment Committee, although such engagements are not necessarily negotiated on an arms-length basis. National has established policies and procedures in this regard to mitigate the potential for conflicts, including among them the involvement of an independent third-party consultant to review and opine as to the reasonableness and market rate nature of such affiliate engagements and provide insights into the commercial reasonableness of the terms of such engagements. National's Chief Compliance Officer periodically tests for adherence with such policies and procedures, with the aim of further mitigating and, if applicable, addressing, potential and actual conflicts of interests. For further detail, please refer to the overview and discussion of National Real Estate Development, LLC in Item 10, below.

Allocation of Fees. National incurs fees, costs, and expenses on behalf of more than one client or on behalf of more than one investor in a single client at times. To the extent such fees, costs, and expenses are incurred for the account or benefit of more than one client or investor, respectively, each such client or investor will bear an allocable portion of any such fees, costs, and expenses in proportion to the size of its investment in the activity or entity to which such expense relates (subject to the terms of each client's or investor's governing documents). National endeavors to allocate such fees, costs, and expenses on a fair and equitable basis. For more complete information on the expenses payable by clients and investors, please refer to the clients' investment management agreements with National and other governing documents.

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

As described in *Item 5*, National's fee arrangements include a management fee, as well as an incentive fee, subject to any specifically negotiated agreements.

Incentive Fee. Generally, National will receive an incentive fee of a negotiated amount by which investments of clients' assets outperform a certain agreed upon benchmark. If earned, seventy-five percent (75%) of the incentive fee is due and payable immediately.

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Payment of the remaining twenty-five percent (25%) is contingent, and subject to forfeiture by National for two years in the event investment returns do not meet or exceed the specified performance benchmark. Details regarding the performance benchmark component of the incentive fee are set forth in the investment management agreements and associated organizational or ancillary documents between National and its clients.

National enters into such fee arrangements only with an eligible client as provided in Section 205(b) (2)-(5) of the Investment Advisers Act of 1940 or a qualified client as set forth in Rule 205-3 under the Act.

Clients should consider whether this fee structure creates an incentive for National to recommend investments which are riskier or more speculative than those which would be recommended under an alternative fee structure. Such fee structure can create an incentive to favor higher fee paying clients over other “side-by-side” clients in the allocation of investment opportunities. To mitigate this potential conflict, National has adopted an investment allocation policy which seeks to ensure that investment opportunities are allocated fairly and equitably, and in a manner consistent with its client’s investment management agreements and other governing documents, and that allocations are otherwise fair and reasonable under the circumstances, when an investment opportunity generated by National could be suitable for more than one client.

As a first step in the policy, National determines which of its clients has investment guidelines which would make the investment eligible for that client’s account. If it is determined that the investment is eligible for more than one client account, National then determines which of those clients have adequate resources in their accounts, or undrawn commitments, to make the investment. Of the clients with adequate resources or available undrawn commitments, National then determines whether the subject investment is more suitable in its particulars for one or more of those clients (e.g., National would examine geographic diversification, economic diversification, investment type diversification, investment partner and borrower diversification, tenant diversification, etc.) If, after taking into account relevant factors, National determines that two or more clients are equally or nearly equally well suited for a particular investment, National will allocate the investment via a blind drawing using only the names of eligible clients (including in that analysis all previous drawings of eligible clients).

Item 7. Types of Clients

National’s clients include pension funds, governmental retirement plans, corporate pension plans, private real estate investment trusts, university endowment funds, charitable foundations, and other eligible institutions or eligible individual investors who seek to invest in a portfolio of commercial and residential real properties and real estate-related assets located in the United States. Details concerning applicable fees, minimum investment amounts and suitability criteria are set forth in the clients’ investment management agreements with National and any other associated governing documents, such as subscription agreements, offering memoranda, and from time to time, side letters.

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

Investment Objectives and Blended Benchmark for Real Estate Investments. The principal objectives for National in managing its clients' assets are: (1) to preserve and protect the clients' capital; (2) to generate income and provide the potential for capital appreciation; and (3) to provide an average annual total return on equity and debt investments, before a particular client's management fee (as defined below), in excess of a blended benchmark comprised of three indices (the "Blended Benchmark")*. The Blended Benchmark for equity returns is compared to the National Property Index ("NPI") prepared by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), permanent loan returns are compared to the Giliberto-Levy Commercial Mortgage Performance Index (Aggregate Sector), and construction loan returns are compared to 30-day LIBOR rates +150 basis points, in each case as measured on a gross basis before deduction for the management fee. *There can be no assurance, however, that these objectives will be achieved. Accordingly, an investment by any client involves a high degree of risk (including risk of loss of principal) and is only suitable for those investors who have the financial sophistication and expertise to evaluate the merits and risks of a commercial real estate portfolio that involves a substantial construction and development portfolio allocation. The discussion on Risk of Loss, below in this Item 8, enumerates certain, but not all, risk factors that apply to an investment by any client with assets under management by National.*

* With the exception of Girard Square Investors Holdings, LLC ("GSIH"). See the GSIH Private Offering Memorandum for the details of this offering.

As described further below, client's assets will be invested in varying types of commercial real estate properties and a variety of real estate investment structures, including property acquisitions, joint ventures, senior and junior mortgage debt, and subordinate debt and credit enhancements, with a strategy seeking to achieve the investment objectives of its clients through: (i) the development and ownership of high quality, modern properties, (ii) in diverse markets with strong fundamentals, and (iii) utilizing a variety of investment structures that provide access to skilled and experienced operating partners and borrowers.

National intends to make investments when attractive opportunities meeting its investment criteria exist and after conducting appropriate due diligence. All investments made by National are actively managed to position each investment competitively in its market and to motivate each operating partner and borrower to optimize performance at the property level. Each investment property, to the extent a sale is permitted by the investment structure, is subject to a hold-sell analysis on an annual basis.

Real Estate Categories and Metrics.

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A. Property Types: National seeks to invest in quality real properties that exhibit the following characteristics:

1. *New Construction* – New investments are made primarily in properties involving entirely new construction or substantial rehabilitation, as well as the acquisition of land (or options to purchase or ground lease land) deemed attractive and in line with National's investment strategies. From time to time, National acquires or contractually secures the option to acquire already constructed properties if National determines doing so is likely to be accretive to existing properties or is otherwise positively opportunistic or prudent in furtherance of investment objectives for its clients.
2. *Modernity and Sustainability* – Investments are made primarily in assets to be developed into modern, efficient buildings designed to compete effectively within the marketplace. National evaluates its holdings regularly and seeks to divest properties that are aging and in danger of becoming obsolete. Properties in unique and attractive locations, if warranted, are considered for rehabilitation, renovation or modernization.

In line with its focus on continuously building and refreshing a portfolio of modern assets, National also focuses, where feasible, on incorporating sustainable practices and seeking green building certifications for properties in its client's portfolios. This commitment to ESG (environmental, social and governance) has been shown to produce more attractive and in-demand modern assets and result in profitable and beneficial business results, as recognized by the Global Real Estate Sustainability Benchmark (GRESB), which assesses ESG performance of real estate globally.

3. *Quality Properties* – Investments are made in quality properties, with strong fundamentals, which National would be willing to own for a significant period of time. National expects this to be true even if the equity or mortgage investment related to the property is by design expected to be short term.
4. *Property Types* – National seeks to invest at least 40% and as much as 100% of the combined mortgage, equity investments and debt investments of its clients in office, residential, retail and industrial property types. For purposes of these allocation targets, the residential property type includes all types of residential properties, such as senior housing, student housing, for sale housing, etc., and all ground leases are categorized in the property type which supports the ground lease. Other property types, such as medical buildings, data centers, energy producing related facilities, land held for development, and other types of real estate are also considered for investment. The investment guidelines included in the investment management agreement address any single property type allocations, or

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limitations on allocations, as applicable.

5. *For Sale Housing* – The for-sale residential housing market represents a very substantial segment of the overall new construction and development market. National believes that for-sale housing can be subject to a less competitive capital environment and, therefore, present opportunities for enhanced returns. However, these opportunities are often limited due to regulatory, tax and other considerations complicating the ability of National's clients to invest in for-sale housing products in a tax advantaged manner.
6. *Real Estate Infrastructure Investments* – National believes that many attractive real estate opportunities are present in infrastructure projects that are supported by physical assets and real property, and that such investments can generate stable returns. Such investments would typically involve the construction, repair, or ownership of facilities thought of as constituting a part of, supplying or supporting the public or private physical infrastructure of the U.S. In this broad investment area, National targets real estate investments in data centers, in particular, as well as energy-producing facilities, public buildings, waste treatment plants, energy/resource delivery, transmission and storage facilities, and similar properties and facilities. Such investments take the form of construction loans, permanent loans, ground lease investments, joint ventures or other suitable equity investment structures.

B. Markets: National invests in properties located in markets that exhibit the following characteristics:

1. *Equity Investments in Dynamic Markets* – In general, National makes equity investments in markets that hold the promise of secure, long-term capital appreciation through stable and sustained growth. In particular, while not exclusively so, equity investments are sought in markets with significant intellectual capital, effective local government, a progressive business community and a modern transportation infrastructure.
2. *Mortgage Investments in Gateway and Other Markets* – Mortgage investments are made in areas that would also warrant equity investments. In order to diversify a client's investment portfolio more broadly while protecting against the possibility of loss of equity in stagnant market areas, mortgage investments in secondary and tertiary markets, in particular, are sought. This diversification is market and cycle dependent and there can be no guarantee of inclusion of mortgage investments in client portfolios, at any time.
3. *Market Timing* – National pursues new investment opportunities patiently

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and prudently and considers investment sales and property disposition opportunities when attractive and compelling opportunities arise. National does not source new investments simply to fulfill allocation targets or production goals without regard to market factors and prudent due diligence criteria. The objective of National is to assemble a combined real estate and mortgage portfolio consisting of high-quality assets that enjoy economic diversification, as well as geographic and property type diversification, and that suggest good prospects for long-term success.

C. Structure: National utilizes a variety of investment structures to compete effectively for investments in the capital markets with appropriate risk/return profiles, while maintaining sufficient controls and monitoring rights to protect its investment positions.

1. *Significant Joint Venture Rights* – Limited liability companies are the preferred legal entity for joint ventures under National's asset management, though in certain cases other entity types are utilized. Most joint ventures are with a joint venture partner (or entity controlled by the joint venture partner) in charge of the development and day-to-day management of the enterprise, with National working to negotiate joint venture terms that provide significant management decision-making rights. Further, where determined by National to be in the best interests of the client, National (or a single purpose entity designated for the role) acts in the role of the manager, managing member or general partner of asset-level entities owned or controlled by National's clients, rather than delegating that role to a third party. National's clients also wholly own properties, without other partners or investors, in certain circumstances.
2. *Use of Leverage* – Leverage is used at the asset level primarily in three circumstances: first, when capital markets create opportunities to increase yields by the prudent use of third party debt financing; second, when leverage permits desirable diversification of investments; and third, when leverage enables the making of desirable investments that might not otherwise be available.
3. *Debt Investment Liquidity* – Mortgage and other debt investments can be structured as whole debt instruments or, in certain instances, as part of a debt structure involving co-lenders, participating lenders, or other structures.
4. *Debt Investment Terms* – Efforts are made to originate debt investments with maturity dates that are staggered over a reasonable period of time so that a client's debt investment portfolio enjoys significant diversity of maturity dates and interest rates and permits funds obtained from maturing mortgages to be reinvested at various interest rates available over time.

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However, in view of the volatility and the competitiveness of the commercial mortgage market, there is no certainty that these goals will be achieved.

5. *Debt and Equity Mix* – With consideration of market conditions, including the market cycle, interest rates, cap rates and discount rates, as well as available opportunities, National uses its discretion to determine what it views as a prudent and appropriate allocation of client investments to equity and debt positions, respectively. It considers providing clients with 20% to 80% of investments structured as debt, and 20% to 80% structured as equity, based on these and other relevant factors. Equity and debt allocations are heavily influenced by market conditions and are determined in National's discretion with due regard to such considerations.

- D. Partners/Borrowers: National seeks to identify highly skilled and experienced property developers and managers with which to co-invest or to whom to provide debt financing. Risks inherent in real estate construction, development and ownership are always present, even with highly skilled parties with respect to whom National has conducted significant due diligence or maintained long-standing relationships, as discussed in greater detail below:

1. *Quality Partners and Borrowers* – National attributes a high degree of importance to underwriting the integrity and expertise of partners and borrowers. When conducting due diligence and making an assessment regarding an investment, National relies on available resources, including information provided by partners and in some circumstances, third parties. As a result, the due diligence process is often subjective, and accordingly, National cannot be certain that due diligence investments with respect to any investment opportunity will reveal or highlight all relevant facts (including misunderstandings, misrepresentations, errors, fraud, etc.) necessary or helpful in evaluating an investment.
2. *Investments with Motivated Partners and Borrowers* – National seeks to structure its investments so that risks are appropriately shared, and the partner's or borrower's success supports the client's success. Nonetheless, there can be no guarantee that a partner's or borrower's history or other factors will be revealed during due diligence, and therefore there are always risks inherent in selecting partners and borrowers.
3. *Maintenance of Partner, Borrower and Manager Relationships* – After an investment is closed, National works systematically to maintain a close and productive relationship with each partner and borrower, and frequent contacts are pursued. Regular reporting is required from all partners and borrowers, pursuant to property level joint venture, loan and other governing documents.

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Investment Process and Methods of Analysis. National's investment team reviews investment opportunities that are submitted to or identified by National. Investment submissions to National are encouraged to contain, at a minimum, the basic information needed to analyze the acquisition or development of the project on a preliminary basis. This includes as a matter of course the following information, depending on the nature of the investment:

1. *Sponsorship* – Project sponsorship is perhaps the most critical element of investment consideration. Sponsorship information should include prior real estate investment and development experience and professional experience of key principals.
2. *Project Description* – A general overview of the project including project size, location, development plan, preliminary architectural renderings and site plan.
3. *Proposed Investment Structure* – The proposed capital requirements of the project (i.e., amount and terms of proposed joint venture equity, mezzanine debt, etc.), including projected third-party capital.
4. *Development (or Pre-development, etc.) Budget* – As applicable, a budget detailing land, entitlement, predevelopment, development and hard cost and soft cost line items over the expected predevelopment, construction and lease-up or sell-out period.
5. *Monthly Pro Forma* – A monthly projection of project income and expenses including a summary of assumptions used to create the pro forma. The timeframe of the pro forma should cover the life of the investment or 10 years.
6. *Market Information* – A brief description of the applicable market conditions and the project's profile relative to that market.

Governance. National's Investment Committee is responsible for approving all new investments and other investment-related decisions on behalf of National's clients. The Investment Committee is scheduled to meet once per month, with some exceptions, or more frequently, as needed. The Committee is comprised of four members, all of whom are real estate investment professionals with substantial real estate investment experience. Investment Committee members currently include Jeffrey J. Kanne, Marshall D. Lees, Kenneth P. Riggs, Jr., and Eva Hill. Please see Part 2B of Form ADV for biographical information regarding members of National's Investment Committee.

Risk of Loss Generally. Investing in securities and real estate involves risk of loss that clients should be prepared to bear. National's investment program is designed only for

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institutions and sophisticated persons which are able to bear the economic risk of loss of their investment, understanding such investments may be highly speculative, and which have a limited need for liquidity in their investment. Such investments are not intended to be a complete investment program.

Below is a more detailed discussion of some, but not all, of the material risks associated with the key components of National's real estate investment strategy:

Real Estate Investments Generally. A client's investments involve the economic and business risks inherent in real estate investments of the type National intends to make. A significant risk of owning real estate-related investments is the possibility that the related properties will not generate income sufficient to meet operating expenses, to service any loans that are secured by the properties, or to fund adequate reserves for capital expenditures. The income from investments is affected by many factors, some, but not all, of which are described in greater detail below. Any return to clients on their investment will depend upon factors that cannot be predicted at the time of investment and which are beyond the control of National. Such factors will affect the return to clients on their investment.

Identification of Investments. The identification and acquisition of appropriate investments that fit a client's investment objectives is difficult and involves a degree of uncertainty. There can be no assurance that National will, on an ongoing basis, be able to identify and complete investments that meet a client's investment objectives or that National will be able to invest all of a client's available capital. A client's ability to acquire investments on favorable terms and to operate them successfully is affected by any number of factors, including, but not limited to, its potential inability to acquire or make a desired investment because of competition from other real estate investors with significant capital, whether National is able to complete due diligence investigations to its satisfaction, the risk that budgeted amounts are surpassed to make necessary improvements or renovations to acquired investments, the risk that market conditions result in higher than expected vacancy rates and lower than expected rental rates, or the risk that a client acquires properties subject to liabilities with limited or no recourse with respect to unknown, unindemnified or uninsured liabilities including, without limitation, any arising from the course of action of or matters related to former owners of or in investors in the properties or third parties. Furthermore, there can be no assurance that there will be a sufficient number of suitable investments available on an ongoing basis for investment or that the investments selected by National for a client will prove to be successful.

Unspecified Portfolio of Assets. On behalf of its clients, National acquires and makes investments in a wide variety of real estate equity and debt investments. Investors must rely upon the ability of National in making such investments on behalf of a client. Subject to the terms of its investment management agreements, National has complete discretion in making such investments and clients do not have the opportunity to evaluate economic, financial and other information regarding the investments that National makes subject only to the limits set forth under applicable investment management agreements.

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Use of Leverage and Credit Enhancements. Subject to the terms of investment management agreements, National is authorized to leverage assets owned by a client for use in purchasing and maintaining a client's investments. The use of leverage creates an opportunity for increased returns, but at the same time involves more financial risk and increases the exposure of a client or its investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the investment collateral. Attractive financing is influenced by market fluctuations that have the potential to significantly decrease the availability and increase the cost of leverage. Principal and interest payments on any leverage will be payable regardless of whether a client has sufficient cash available. Senior lenders would be entitled to a preferred position on encumbered assets. Accordingly, failure to service secured debt could result in the loss of a client's interest in the related asset.

Clients are often required to provide credit enhancement to a third-party involved in the financing of a project in which the client is invested. Most often, this would typically take the form of a partial guarantee to a third-party lender which has made a loan to an entity in which a client is an investor. When such a guarantee or other credit enhancement is issued by a client, the principal amount thereof is included in determining a client's leverage ratio, if relevant under the terms of the client's investment management agreement with National.

Possibility of Future Terrorist Activity. Client properties managed by National are often located in or near major metropolitan areas of the United States. Such properties or the areas in which they are located could be subject to future acts of terrorism. In addition to the potential direct impact of any such future act, future terrorist attacks and the anticipation of any such attacks could have an adverse impact on the U.S. financial and insurance markets, among others, and the general U.S. economy, thus harming leasing demand for and the value of certain of a client's properties. It is not possible to predict the severity of the effect that such future events would have on the U.S. financial and insurance markets, among others, and the general U.S. economy or a client's properties. Such events would be expected to have a negative effect on the business and performance results of one or more of a client's properties or subsequently acquired properties, including by raising insurance premiums and deductibles and limiting available insurance coverage for such properties.

Uncertain Economic, Social, and Political Environment. Consumer, corporate and financial confidence can be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest, including health-related outbreaks, epidemics, and/or pandemics. Such erosion of confidence can lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential real estate investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses,

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including credit used to acquire businesses, in an uncertain environment or economic downturn can have an adverse effect on the economy generally and on the ability to execute an investment strategy and to receive an attractive multiple of earnings on the disposition of the real estate investment. This may slow the rate of future investments and result in longer holding periods for the real estate investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect directly upon the real estate investments.

Potential Losses May Not Be Covered by Insurance. National maintains or requires the maintenance of comprehensive casualty insurance on its properties, including liability and fire and extended coverage, in commercially reasonable amounts. It endeavors to obtain or cause to be obtained coverage of the type and in the amount customarily obtained by owners of properties similar to the real property that it acquires in the future. There are certain types of losses, however, of a catastrophic nature, resulting from, for example, earthquakes, floods, hurricanes and terrorist acts, some uninsurable or not insurable from an economic feasibility perspective. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering a client's properties pledged as collateral for loans, and other factors also might make it economically impractical to use insurance proceeds to replace improvements on a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received by a client, if any, might not be adequate to restore a client's investment with respect to the affected property. If a client experiences a loss that is uninsured, or which exceeds policy limits, a client could lose some or all the capital invested in the damaged properties as well as the anticipated future cash flows from those properties.

Significance of Each Tenant's Financial Condition. Tenants in the properties in which a client's funds are invested often experience a downturn in their businesses, weakening their financial condition, at times resulting in their failure to make timely rental payments or default under their leases. In the event of a tenant default, the title holding entity owned by a client could experience delays in enforcing its rights as landlord and such entity could incur substantial costs in protecting its investment.

The bankruptcy or insolvency of a tenant can adversely affect the income produced by a client's properties. If any tenant becomes a debtor in a case under the United States Bankruptcy Code, the title holding entity is at times unable to evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might authorize the tenant to terminate its lease. A claim against the tenant for unpaid future rent might be subject to a statutory cap that could be substantially less than the remaining rent owed under the lease. Regardless, there remains the risk that any claim for unpaid rent would not be paid in full.

Environmental Matters. Under various Federal, state and local laws and regulations relating to the protection of the environment, a current or previous owner or operator of real estate can be required to investigate and clean up hazardous or toxic substances, petroleum product releases or other environmental conditions at that property and be held

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liable to a government entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. Such laws often impose clean-up responsibility and liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability is from time to time joint and several. The presence of contamination or the failure to remediate contamination in a client's properties exposes its title holding entities to substantial costs or third-party liability, or adversely affects its ability to sell, lease or develop the real estate or to borrow using the real estate as collateral. In addition, if a client were obligated to pay such costs, it could adversely affect cash flow, operating results, and investment returns.

Such environmental laws also govern the presence, maintenance and removal of asbestos-containing building materials and fines and penalties for failure to comply with these requirements can expose a client to third-party liability.

There can be no assurance that costs of future environmental compliance will not have a material adverse effect on a client's business, assets or results of operations.

Americans with Disabilities Act of 1990. Under the Americans with Disabilities Act of 1990, as amended ("ADA"), all public accommodations must meet Federal requirements related to access and use by disabled persons. If one or more of a client's properties is found not to be in compliance with the ADA, then a client could be required to incur additional costs to bring the property into compliance. Additional Federal, state and local laws from time to time require modifications to properties or restrict a client's ability to renovate its properties. National cannot predict the ultimate cost of compliance with the ADA or other legislation, in such cases. If a client incurs substantial costs to comply with the ADA and any other legislation, and such costs were not known or anticipated at the time of investment, its financial condition, results of operations, cash flow, and its ability to satisfy its debt service obligations could be adversely affected.

The investments in a client's portfolio are subject to various other Federal, state and local regulatory requirements, as well, such as (without limitation) state and local fire and life safety requirements. If a client fails to comply with these various requirements, governmental fines or private damage awards can follow. There is no way to know whether requirements existing at the time an investment is made will change or whether future requirements will require a client to make significant unanticipated expenditures that will adversely impact its financial condition, results of operations, cash flow, and its ability to satisfy its debt service obligations.

Joint Ventures. National invests, and is likely to continue investing, in properties through joint ventures, partnerships and other co-ownership arrangements (including senior and subordinate debt investments) with developers or with other persons. Such investments involve unique risks, including, but not limited to, the risk that a client's co-venturer or partner in an investment might become bankrupt, that such person might have economic or business goals that are inconsistent with the business interests or goals of a client, or

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that such person is able to act contrary to the instructions or the requests of a client or contrary to a client's policies or objectives. Action by such a co-venturer or partner might have the result of subjecting a property to liabilities, costs and risks in excess of those contemplated or anticipated by a client. It can be more difficult for a client to sell an interest in a joint venture or partnership than a wholly-owned property, and the sale of some interests or assets is regularly subject to lock-out periods.

Control Over Investments. In certain situations, a client of National may: (a) acquire only a minority interest in a property, portfolio company or other asset in which it invests, (b) rely on independent third-party management or strategic partners with respect to the management of a property, portfolio company or other asset in which it invests, or (c) acquire only a non-controlling participation interest in an asset underlying an investment. A client's control over a loan or investment is subject to greater limitations, and sufficient information to monitor the performance of investments is not always available in such circumstances.

Subordinate Debt Investments. National has the discretion to make, on behalf of a client, subordinate debt investments that are secured by real estate or by joint venture interests in joint ventures that own real estate. Such investments will involve the risks attendant to real estate investments as well as additional risks attendant to investments in subordinated positions. Subordinate loans, such as junior participations in mortgages, have a risk of credit loss that is significantly enhanced due to the subordinate nature of such investments. In the event of default, the net proceeds from a foreclosure or restructuring are not always sufficient to cover the expenses of foreclosure and payment in full of the debt. In such event, the holders of subordinate loans will realize a loss of up to their entire investment before the senior debt holder will suffer any loss.

National has complete discretion with respect to the terms of any such debt investments and the security for such investments. There can be no assurance that a client will not experience a loss in the event of a default by a borrower, or that a client's security interest will have the value that it was projected to provide at the time the initial investment was made.

Commercial Mortgage Loan Investments. The commercial mortgage loans a client owns or acquires are subject to risk of delinquency, foreclosure and loss, which could result in losses to a client. A client's commercial mortgage loans are secured by commercial property and related assets, and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of other assets. The ability of a borrower to repay a loan secured by an income-producing commercial property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan is often impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable

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types of properties, changes in laws that increase operating expenses or limit rents charged, any need to address environmental contamination at the property, changes in national, regional or local economic conditions and/or specific industry segments; declines in regional or local real estate values and declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; and acts of God, terrorism, social unrest and civil disturbances.

Commercial mortgage loans tend not to be amortizing or do not fully amortize, which necessitates the sale of the property or refinancing of the “balloon” amount at or prior to maturity of the mortgage loan. Accordingly, a client and its investors bear the risk that the borrower under a loan will be unable to refinance or otherwise repay the mortgage at maturity, thereby defaulting on its obligation.

Limits on the enforceability of, or legal and financial recourse upon, a default under the terms of the mortgage loan or applicable state law pose risks in this product sector. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower’s other assets. Exercise of foreclosure and other remedies tend to involve lengthy delays and unforeseen expenses in the face of declining property values. In certain circumstances, the creditor incurs environmental liability for conditions existing at or on the property.

Delays in Investment. There may be a delay between the time assets are placed under management with National and the time the assets are committed or drawn at the property level in any given investment for a client’s account. National invests cash that it holds temporarily in short-term government securities, certificates of deposit, commercial paper, other money market instruments or other short-term investments as National deems appropriate. There is no time limit within which National must invest available cash. These temporary investments tend to produce returns that are different from and possibly lower than those that are obtainable once the cash is invested in real property related investments.

Possible Lack of Diversification. The investments made by National could potentially be concentrated in one asset or investment type or in relatively few assets or investment types or locations. Consequently, the aggregate return on a client’s investments has the potential to be adversely affected by the unfavorable performance of a particular asset type, investment type or location, and will be at a greater risk to overall changes in economic or interest rates than if the investments made for a client’s account by National were less concentrated in a particular investment type.

Competitive Nature of Business. The business pursued by National is highly competitive. National often competes, on its clients’ behalf, for suitable investments with other prospective investors that have greater resources than a client, or that have better relationships with sellers of assets, lenders, partners and brokers. These competitors often have different investment objectives than a client, enabling them to accept more risk

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or pay higher prices than National deems reasonable or appropriate for a client. In addition, a client's properties face competition for quality tenants from other properties.

Risks upon Disposition of Investments. In connection with the disposition of an investment, a client is customarily required to make representations about the investment which are variable depending on the transaction and property. Although National attempts to structure transactions so that a client does not have to make extensive representations, or only has to do so on a limited basis, the specific representations involved in the sale of any particular property, and associated liabilities, costs and expenses, cannot be anticipated or guaranteed. A client can be required to indemnify the purchasers of such investment for various investment related matters, including, without limitation, if representations or warranties turn out to be incorrect, inaccurate, or misleading. This can result in contingent liabilities, and in some cases, require reserves or other structures to address such contingencies.

Targeted Rate of Return on Investments. National makes investments based on its estimates or projections of internal rates of return and current returns, among other criteria, which in turn are based on, among other considerations, assumptions regarding the future performance of a client's assets, the amount and terms of available financing and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated pose the risk of a significant effect on the actual rate of return on a client's investments.

Construction and Development Projects. As described above, National's current strategies particularly focus on the acquisition of direct and indirect interests in real estate development and improvement projects. To the extent National invests or participates for a client's account in construction development activities, clients will be subject to the risks associated with construction and development projects. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of National, such as weather or labor conditions or material shortages), the availability of both construction and permanent financing on favorable terms and other such risks associated with construction and development projects as described herein and otherwise. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on financial conditions of a given investment and a client's return on investment.

Multi-Sector Investment Strategy. National's current strategies, as outlined above, include investing in assets across a variety of real estate product-types in a variety of geographic locations. Accordingly, National is required to maintain expertise, relationships and market knowledge across a broad range of product-types and geographic regions and will be subject to the market conditions affecting each such product-type in various markets, including such factors as the local economic climate, business layoffs, industry

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slowdowns, changing demographics, and local supply and demand issues affecting each such market. This multi-sector approach could require more management time, staff support and expense than the approach of an advisor whose focus is dedicated to a greater extent on a single product-type in fewer jurisdictions than the strategies employed by National.

Office Properties. Subject to the terms of its investment management agreements with clients, National invests in and expects to continue investing in office properties. A large number of factors pose risks to adversely affecting the value of office properties, including the quality of an office building's tenants; an economic decline in the business operated by the tenants; the physical attributes of the building in relation to competing buildings (e.g., age, condition, design, appearance, location, access to transportation and ability to offer certain amenities, such as sophisticated building systems and/or business wiring requirements); the physical attributes of the building with respect to the technological needs of the tenants, including the adaptability of the building to changes in the technological needs of the tenants; the diversity of an office building's tenants (or reliance on a single or dominant tenant); the desirability of the area as a business location; the strength and nature of the local economy, including labor costs and quality, tax environment and quality of life for employees; and an adverse change in population, patterns of telecommuting or sharing of office space, and employment growth (which creates demand for office space).

Multifamily Properties. Subject to the terms of its investment management agreements with clients, National invests in garden-style, mid-rise and high-rise multifamily rental properties. A large number of factors can adversely affect the value and successful operation of such properties, including: physical attributes of the property such as its age, condition, design, appearance, access to transportation and construction quality; location of the property (for example, a change in the neighborhood over time); ability of management to provide adequate maintenance and insurance; the types of services or amenities that the property provides; the property's reputation; the level of mortgage interest rates, which can encourage tenants to purchase rather than lease housing; presence of competing properties; the tenant mix, such as the tenant population being predominantly students or being heavily dependent on workers from a particular business or personnel from a local industrial unit; adverse local or national economic conditions limiting the amount of rent chargeable, potentially resulting in a reduction of timely rent payments or a reduction in occupancy levels; state and local regulations affecting the building owner's ability to increase rent to the level of market rents for an equivalent apartment; and government assistance/rent subsidy programs.

In addition, certain jurisdictions regulate the relationship of an owner and its tenants. Commonly, these laws require a written lease, good cause for eviction, disclosure of fees, and notification to residents of changed land use, while prohibiting unreasonable rules, retaliatory evictions, and restrictions on a resident's choice of unit vendors.

In addition to U.S. federal, state and/or local regulation of the landlord-tenant relationship,

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numerous counties and/or municipalities impose rent control on apartment buildings. These ordinances from time to time limit rent increases to fixed percentages, to percentages of increases in the consumer price index, to increases set or approved by a governmental agency, or to increases determined through mediation or binding arbitration.

Retail Properties. Again, subject to the terms of its investment management agreements with clients, National invests in retail properties. Several factors can adversely affect the value and successful operation of a retail property, including, but not limited to: (a) changes in consumer spending patterns, local competitive conditions (such as the supply of retail space or the existence or construction of new competitive shopping centers or shopping malls); (b) alternative forms of retailing (such as direct mail, video shopping networks and internet web sites, which reduce the need for retail space by retail companies); (c) the safety, convenience and attractiveness of the property to tenants and their customers or clients; (d) the public perception of the safety of customers at shopping malls and shopping centers; (e) the need to make major repairs or improvements to satisfy the needs of major tenants; and (f) traffic patterns and access to major thoroughfares.

The general strength of retail sales also directly affects retail properties. If retail sales by tenants in a client's properties were to decline, the rents that are based on a percentage of revenues often decline, and tenants can struggle to pay the fixed portion of their rents or other occupancy costs. The cessation of business by a significant tenant can adversely affect a retail property, not only because of rent and other factors specific to such tenant, but also because significant tenants at a retail property play an important part in generating customer traffic and making a retail property a desirable location for other tenants at such property.

Industrial Properties. As noted above, National also invests client assets in industrial properties, subject to the terms of its investment management agreements with clients. Significant factors determining the value of industrial properties are; the location of the property (including proximity to supply sources and customers and accessibility to rail lines, major roadways and other distribution channels and transportation routes); the quality of tenants; a reduced demand for industrial space because of a decline in a particular industry segment, property becoming functionally obsolete, building design and adaptability, scarcity of labor sources, changes in access, energy prices, strikes, relocation of highways, the construction of additional highways or other factors; changes in proximity of supply sources; the expenses of converting a previously adapted space to general use; and the location of the property. Concerns about the quality of tenants, particularly major tenants, are similar in both office properties (as discussed above) and industrial properties, although industrial properties, due to their nature, are often more frequently dependent on a single or a few tenants.

A particular industrial or warehouse property suited to the needs of its original tenant can be difficult to re-let to another tenant or become functionally obsolete relative to newer

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properties. Also, properties used for many industrial purposes are more prone to environmental concerns than other property types. Further, because of unique construction requirements of many industrial properties, many vacant industrial property spaces are not always easily converted to other uses. Thus, if the operation of an industrial property becomes unprofitable due to competition, age of the improvements or other factors, liquidation value can be substantially impacted.

Senior Living Properties. Commercial properties that operate as continuing care retirement communities, assisted living facilities and nursing homes (“Senior Living Properties”) and other healthcare-related facilities such as hospitals, present particular risks due to the possibility of significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. For example, the operations of nursing homes are subject to Medicare and Medicaid, licensing and certification requirements of federal, state and local authorities (and periodic audits related thereto), fraud and abuse laws and regulations, and other legislative and regulatory developments. In addition, transfers of operations of Senior Living Properties and other healthcare-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate-related assets.

Further, the operators of such properties are competing with numerous other companies providing similar services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. These facilities compete on many different levels including with respect to quality, amenities, support, reputation, the physical appearance of a facility, price, the range of services offered, family preferences, alternatives for healthcare delivery, physicians, staff, location, and the demographics of the population in the surrounding areas. Increases in labor costs due to higher wages and greater benefits required to attract and retain qualified personnel could affect the facility’s ability to pay its lease or mortgage payments. There can be no assurance that the Senior Living Properties in which an investment is made will be able to achieve occupancy levels, resale levels, or rate and price levels that will cause such investments to be successful.

Data Center Projects. Data centers share a number of risk factors common with most real estate sectors and have some additional risks due to the intended usage of the leased space. As a repository for sophisticated information technology (“IT”) equipment, data center buildings are engineered to provide a very specific environment for IT technologies where the operational tolerances for the equipment are strict, including, among other things, temperature and humidity thresholds, which depend on the reliable delivery of continuous electrical power. If these requirements are not maintained, the performance of the IT equipment could be compromised, which would be unacceptable to the tenants and could result in claims for damages. Although National intends to invest in data center buildings with state-of-the-art redundancies to provide electrical power, there is no guarantee that these redundancies will always work as designed, thus creating a risk that the space leased by tenants will not operate correctly for a period. Also, as a “high-energy-

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consuming” industry, data center energy consumption is under scrutiny as federal and state governments look to reduce carbon footprints through legislation or restrictive regulations. Although National also focuses on investments in energy efficient buildings, market demands drive investment in areas where such efficiencies are not always ideal.

Hotel Properties. Client assets are invested by National in hotel properties, including luxury, full-service, limited-service, and extended-stay hotels, and hotels in other service categories, again subject to the terms of its investment management agreements with clients. A large number of factors adversely affect the ownership of, or loans secured by, hotel properties, including: the physical attributes of the property, such as its age, condition, design, appearance, and quality of exterior improvements and interior furniture, fixtures and equipment; proximity to room-night demand generators, including transportation and other location factors affecting corporate, group, transient and leisure demand; management of the property by either independent hotel operators or national, branded hotel companies; effective management by the hotel operator/manager to maximize revenue and control operating expenses; factors related to the hotel brand itself such as its local and national reputation, reservation system, loyalty program, marketing etc.; local supply and demand factors such as the construction or renovation of competitive hotel properties; adverse local, national or international economic conditions which affect various demand segments and which could result in a reduction in business, group or leisure travel; local, national or international factors which could adversely impact the tourism and travel industries in general or in a particular locality, such as foreign currency exchange rate fluctuations, weather, travel disruptions, epidemics or pandemics, boycotts, or other unforeseen factors which could have an adverse impact on the ability to maximize average daily room rates and/or occupancy; state and local regulations, such as increased taxes, which decrease profitability; capital markets conditions which restrict the ability to procure or maintain adequate third-party financing related to hotel properties specifically; union related matters with the potential to effect costs, profitability, asset value or investment returns; and liability arising from claims by hotel employees or guests against which the owner/lender is either required to indemnify the hotel operator or other third parties, is not itself indemnified, nor carries adequate or applicable insurance coverage.

Construction Loans. National’s strategy involves owning and acquiring loans related to the construction of commercial and residential use properties for clients’ accounts, subject to the terms of its investment management agreements with clients. Construction lending is considered to involve a higher degree of risk than other types of lending, on balance, due to a variety of factors, including such factors as larger loan balances, the dependency on successful completion of a project, the dependency upon the successful operation of the project (such as achieving satisfactory occupancy and rental rates) for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity.

Fluctuations in Interest Rates. National from time to time employs various hedging

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strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. No strategy can completely insulate a client from the risks associated with interest rate changes, and there is a risk that they provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks, such as counterparty risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates cause a significant loss of basis in the contract and a change in current period expense. National cannot give any assurances that it will be able to enter into hedging transactions or that such hedging transactions will adequately protect a client against the foregoing risks. In addition, cash flow hedges that are not perfectly correlated (and appropriately designated/documentated as such) with a variable rate financing will impact a client's reported income as gains and losses on the ineffective portion of such hedges will be recorded.

Due Diligence. There can be no assurance that National's due diligence processes will uncover all relevant facts that would be material to an investment decision. Before making an investment, National assesses the strength of the underlying properties and any other factors that it believes are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, National relies on the resources available to it, and in some cases, reviews by third parties.

Decisions on Expedited Basis. Investment analysis and decisions by National frequently are required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to National at the time of making an investment decision can be limited and not always complete. Therefore, no assurance can be given that National will have knowledge of all circumstances that have the potential to adversely affect an investment.

Past Performance of National. The performance of National is dependent on future events and is, therefore, inherently uncertain. The track record of National, including all investments managed by National's officers and staff for its clients, cannot be relied upon to predict future events due to a variety of factors, including, without limitation, varying business strategies, different local and national economic circumstances, different supply and demand characteristics, varying degrees of competition, and varying circumstances pertaining to the real estate markets.

Dependence on Key Personnel. The success of a project (and thus a client's and its investors' investments) depends in substantial part on the skill and expertise of the senior members and other employees of the investment team. There can be no assurance that such key personnel will remain in the employ of National. The loss of the services of any such individuals could have a material adverse effect on a client's operations. In addition, National manages investments in real estate in which a given client will not have an ownership interest. Members of the investment and management teams at National, and their service providers, allocate their time and services among client accounts with due

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regard to any competing interests, however there can be no assurance that such demands and time allocations will not negatively impact a particular client or investment.

Absence of Recourse to National. A client's investment management agreement may limit the circumstances under which National can be held liable to the client and its investors. As a result, investors have a more limited right of action in certain cases than they would in the absence of these provisions. Subject to specific requirements in a client's investment management agreement, National covenants in favor of its clients to exercise appropriate duty of care and similar standards.

USA Patriot Act. National, its clients, their investors and other parties (such as, without limitation, contract parties) involved in investments managed by National are subject to certain provisions of the USA PATRIOT Act of 2001 (the "Patriot Act"), including, but not limited to, Title III thereof, the International Money Laundering and Abatement and Anti-Terrorist Financing Act of 2001 ("Title III"), certain regulatory and legal requirements imposed or enforced by the Office of Foreign Assets Control ("OFAC") and other similar laws of the United States. In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, National is required to request that clients and investors in clients provide additional documentation verifying, among other things, such investor's identity and source of funds to be used to make investments. National may be and is at times required by law and/or covenants to third parties, to decline to accept subscriptions to a client's account if this information is not provided or on the basis of the information that is provided. Requests for documentation and additional information may be made at any time. National can be called upon to report this information or report the failure to comply with such requests for information, to appropriate governmental authorities, in certain circumstances without informing investors that such information has been reported. National will take such steps as it determines are necessary to comply with applicable law, regulations, orders, directives or special measures, including, but not limited to, those imposed or enforced by OFAC, the Patriot Act and Title III. Governmental authorities are continuing to consider appropriate measures to implement anti-money laundering laws and it is unclear what steps National would be required to take in every instance, however steps can include (without limitation) prohibiting further contributions of capital by a client, depositing distributions to which the client or its investors would otherwise be entitled into an escrow account, or causing the redemption of investments in such instances.

Liquidity of Investments in Pooled Investment Vehicles. Subject to the terms of investment management agreements with clients, in particular for pooled investment vehicle clients, investments most often cannot be transferred without the prior written approval of National, and redemptions require written request to National. For such clients, National will prudently attempt to meet requested redemptions as soon as is practicable. There can be delays in redemptions. In general, for such clients, National is required to use reasonable efforts to meet redemption requests as soon as practicable in accordance with the foregoing, but is allowed reasonable discretion in the determination of whether there is a need to liquidate or encumber assets or defer investment to make redemption

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payments, giving due regard to market conditions and other factors. In some instances, National is not permitted to timely liquidate investments, due to contractual lock-ups or other restrictions. For these reasons, in such instances and subject to the terms of its investment management agreements with clients, National's clients' investments should be viewed as illiquid long-term investments.

Sales of Real Property Assets. Subject in each case to the terms of its investment management agreements, National is most often permitted to sell assets without the consent of its clients, and investors in a client who are not in favor of selling assets often have no right to prevent such sales.

Liability of Members. If a client is unable to meet its obligations in connection with an investment, investors in the client can, depending on applicable law, be obligated to repay amounts previously distributed to such investor to the extent that such amounts are deemed to have been wrongfully distributed. Furthermore, if a client fails to pay in full any required capital contributions in accordance with the terms of its investment management agreement with National, it can result in the redemption of a defaulting client's or its investors capital commitments. Furthermore, if the capital contributions made by non-defaulting investors and borrowings by the client are inadequate to cover defaulted capital contributions and/or a client is unable to pay obligations when due, significant penalties and/or material and adverse effects on investment returns can result.

Investments by ERISA-Governed Pension or Profit-Sharing Trusts and Governmental Plans. For clients such as (without limitation) qualified pension or profit-sharing plans governed by ERISA or a comparable state law, a fiduciary should consider, among other things, whether the investment satisfies the fiduciary duties of Section 404(a) of ERISA or the fiduciary duties applicable under state law in the case of a governmental plan. Such a fiduciary should take particular note of the prudence and diversification requirements of those laws and the particular liquidity needs of the plan, as well as the requirement to appoint National as an "investment manager" within the meaning of ERISA with respect to assets deemed to be "plan assets" of such ERISA plan.

Prohibited Transactions under ERISA. Certain employee benefit plans which are either exempt from Federal income tax under Section 501(a) of the Code (by reason of Section 401 of the Code), or which are described in Title I of ERISA, are subject to the prohibited transaction restrictions of Section 4975(c)(1) of the Code and Section 406 of ERISA, respectively. Although National intends to comply with such restrictions and conduct its affairs in such a manner as to avoid engaging in prohibited transactions, under certain circumstances, a transaction could be deemed to constitute a prohibited transaction under the Code and ERISA. To avoid engaging in prohibited transactions, National is from time to time required to forego transactions that would otherwise be in the best interest of clients or investors.

If a client is deemed to have engaged in a prohibited transaction, the other party or parties to such transaction could be liable to the U.S. Treasury for the payment of prohibited

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transaction excise taxes and obligated to rescind or otherwise correct the prohibited transaction pursuant to U.S. Treasury regulations. In addition, National could be liable to a client or investors for any loss incurred by a client or investor caused by such prohibited transaction.

Tax Exempt Members May Be Taxable on Unrelated Business Taxable. A client's income in real property investments is expected to constitute rents from real property and other amounts not generally included in unrelated business taxable income ("UBTI") for Federal income tax purposes applicable to tax-exempt members. However, although National intends to operate the investments it pursues so as not to be treated as a dealer with respect to its properties, there can be no assurance that the Internal Revenue Service (the "IRS") will agree with such tax position in all cases. If a client were deemed to be a dealer, it could generate income that is taxable to tax-exempt investors as UBTI. Furthermore, National expects that rental and other income generated by its investments will be debt-financed income that could also be treated as UBTI to tax-exempt investors for U.S. federal income tax purposes. To minimize UBTI from such debt financed real estate investments, National intends to operate its client's investments so as to comply with the UBTI "fractions rule," which generally exempts debt financed real property investments from UBTI for certain tax-exempt investors (such as tax qualified pension plans and endowment funds). However, compliance with the fractions rule is complex and limited guidance exists. Moreover, fractions rule compliance does not exempt tax-exempt investors from UBTI due to debt financing of other non-equity real estate types of investments such as loans or debt securities. Accordingly, investors are urged to consult their own tax advisors regarding the possible consequences of an investment by a client.

Phantom Income. Investors in pooled investment vehicles in particular (but without limitation), will be required to take into account their allocable share of a client's items of income, gain, loss, deduction and credit, without regard to whether they have received or will receive any distributions from a client investment. Thus, each investor, including a tax-exempt investor, can be subject to tax on its distributive share of a client's taxable income, including income that is considered to be UBTI, regardless of whether such investor receives any actual cash distributions from an investment. Accordingly, an investor's tax liability for any taxable year attributable to its investment in a client account can exceed (and perhaps to a substantial extent) the cash distributed to that investor during the taxable year. Consequently, investors should plan to satisfy any tax obligations arising from their investment managed by National from sources other than from distributions from their investment.

Internal Revenue Service Rulings. National does not as a matter of practice or as part of its strategy intend to seek rulings from the Internal Revenue Service with respect to any of the Federal income tax considerations applicable to its clients or investors. Thus, positions taken by the IRS as to tax consequences could differ from positions taken by National. For example, if the IRS determined that a client's allocations of taxable income, gain, loss and deduction were not in accordance with investors' investments, then such items could be reallocated in accordance with the determination of the IRS or a court as

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to investors' respective interests in a client account managed by National.

Litigation, Investigations, Disputes or Claims. In the ordinary course of business, National, its clients, and portfolio companies at the asset level are from time to time parties to litigation, investigations, disputes and other potential claims. There can be no guarantee or prediction of the likelihood of the occurrence of, costs involved with, or outcome of any such matters.

Conflicts of Interest. As disclosed in this Brochure, there are occasions when National and its clients and affiliates encounter potential or actual conflicts of interests. There can be no assurance that National will identify and resolve any conflict of interest in a manner that is favorable to a particular client. Moreover, as National and its clients are governed by the SEC and ERISA, respectively, the officers, directors, members, managers and employees of National take into account certain considerations and other factors related to the management of the business and affairs of a client that would not necessarily be taken into consideration but for the fact that National and its clients are regulated entities. In addition to the material potential conflicts of interests discussed elsewhere in this Brochure, there can be no assurance that all such risks have been identified. Furthermore, policies and procedures implemented by National or its affiliates (including any implemented in the future) to mitigate potential and actual conflicts of interests and address certain regulatory requirements and contractual restrictions, may impose additional costs on the operations and efficiencies of client accounts.

Valuations of Investments. Please refer to *Item 6*, above, for greater discussion on the risks and potential conflicts of interests posed by the many variables and complexities inherent to the valuation of real property assets, the focus of National's investment strategy. While National has a robust valuation policy designed to address and mitigate the prospect of such risks, as described above, there can be no guarantee valuation issues will always be resolved to the benefit or satisfaction of a client.

Business Continuity. National has designed and developed a Business Continuity and Disaster Recovery Plan ("BCP/DRP") on how it will respond to events that significantly disrupt its business. Since the nature, timing and impact of disasters and disruptions is unpredictable, National will have to be flexible in responding to actual events as they occur, but strives for a quick recovery and resumption of business operations as soon as possible after a significant business disruption, once it has safeguarded its employees and property, made a financial and operational assessment, and protected the firm's books and records. In short, the BCP/DRP is designed to permit the firm to resume operations as quickly as possible, given the scope and severity of the business disruption. The BCP/DRP generally addresses: data back-up and recovery; all mission critical systems; financial and operational assessments; alternative communications with clients, employees, and regulators; teleworking and alternate physical location of employees; critical supplier, contractor, bank and counter-party impact; and regulatory reporting, among other vital business operations.

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Cybersecurity Breaches, Identity Theft, Privacy Violations and Other Threats. The computer systems, networks and devices used by National and service providers to National and its clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various and many protections utilized by National to protect against such risks, systems, networks, or devices potentially can be breached and a client could be negatively impacted as a result of a cybersecurity breach.

Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches have been shown to cause disruptions and impact business operations, potentially resulting in financial losses to a client; the inability of National and its service providers to transact business; violations of applicable confidentiality provisions and privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity breaches affecting governmental and other regulatory authorities; banks, real estate brokers, and other financial institutions; and other parties, all of whom, given National's business strategies, often have access to the confidential or proprietary information of National's clients and their investors.

The costs related to cyber preparedness and other privacy programs, confidentiality and security threats or disruptions can be substantial. While National does maintain cybersecurity insurance to cover cybersecurity and related threats, there can be no guarantee that exposures and losses associated with such risks will be insured (in full or in part) or indemnified by other means.

Item 9. Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of the investment adviser or the integrity of the investment adviser's management. Please note that neither National nor any of its management persons have been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of National's business or the integrity of its management.

Item 10. Other Financial Industry Activities and Affiliations

As described above, National Real Estate Development, LLC ("National Development") is a wholly-owned subsidiary of National. National Development was established in June 2013 for the purpose of providing real estate construction and development services for

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certain real estate development projects in which National's and potentially other clients invest. National Development's services include, but are not limited to, the development of budgets and conceptual plans, feasibility studies, the obtainment of permits and other governmental approvals and entitlements, the management of the preparation of plans and specifications for project construction, the coordination of architect's activities, the negotiation of construction contracts, the review and approval of construction change orders and other related predevelopment, construction and development services. National Development is not engaged in the business of providing investment advisory services to National or to any of its clients.

As a matter of policy, before National Development is selected for a project, National's Investment Committee considers and determines that the engagement of National Development would be appropriate, prudent and in the best interests of National's client(s) given the circumstances. Among other benefits, National believes National Development, consistent with National's investment guidelines and requirements, can assist in decreasing development risk of a project through one or more of the following: (1) providing greater control and monitoring of the project; (2) direct involvement in important decision-making related to the project's development; and (3) supplementing the development skill(s) of a local developer when the local developer does not have the appropriate experience or expertise. In addition, National believes National Development's involvement can help reduce the development costs and overruns for certain project components, including local developer's fees and/or profits.

Depending on the circumstances, National Development receives fees and/or expense reimbursement from National, its client(s), or a real estate investment entity in which a client has invested. National believes its client(s) are protected from unfair or excessive fees through National's formal policy that provides that any profits over and above direct compensation costs and overhead expenses incurred by National Development will be credited after project completion against the management fees payable by the corresponding client(s) to National (i.e., no profit will be earned or retained by National or National Development by virtue of National Development's provision of services on a matter where one or more of National's clients is invested). To the extent the fees are being paid by a third-party (such as a project partnership or LLC), and subject to the billing policy restrictions discussed above, National intends to charge market-rate fees for National Development's services (which rates are determined as a percentage of total budget project costs or total project hard costs, or by reference to market hourly fees)(it being noted that nonetheless, the "no profit" prohibition would continue to apply). As alluded to in Item 4, above, to confirm that National Development's fees are below or equal to market rates, National's policy requires a third party, independent consultant with expertise in real estate to assess and confirm each proposed National Development project predevelopment and/or development fee as market rate equivalent. In addition, accounting reconciliations are performed to determine whether amounts collected by National Development with respect to that project exceed the actual qualifying costs incurred by National Development on such project. An accounting reconciliation is performed at the end of a project as well. If an excess exists, the overage, together with

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interest thereon at an annual rate of 10% from the time such excess was received by National Development, will be refunded (credited) to the project or appropriate third-party. National Development's employees receive compensation as employees of National Development, but do not receive compensation, fees or bonuses based upon the amount of fees paid to National Development.

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

Code of Ethics. National has adopted a written Code of Ethics that is applicable to all employees. Among other things, the Code of Ethics requires National and its employees to act in the clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading and related improprieties, and pre-clear and report on certain types of personal securities transactions. A copy of National's Code of Ethics is available upon request made to the Chief Compliance Officer. National considers its Code of Ethics a "living document" to be updated as prudent and appropriate and as required by applicable law, to address various material items including those identified in this *Item 11* and any other material matters.

Conflicts of Interest. National continually evaluates and works to adapt its policies and procedures pertaining to the identification and mitigation of actual and potential conflicts of interests that could be posed by certain political or charitable contributions, existing or future outside business activities, gifts and business entertainment, or affiliate transactions. In this regard, National has implemented a procedure for proactively inquiring about, testing for, and (if and as applicable) addressing actual and potential conflicts of interest posed by these particular activities by National's supervised persons, and other such engagements. National also has a Whistleblower Policy to facilitate reporting by supervised and other persons to confidentially and freely communicate any concerns, including those pertaining to conflicts of interest or other compliance matters. In addition, reference is made to *Item 10*, above, regarding the policies and procedures National has implemented to identify, eliminate, mitigate and prevent potential and actual conflicts of interest related to National's subsidiary, National Development.

Insider Trading. National makes investments in real estate and real estate-related ventures. As most real estate ventures are private transactions and since the vast majority of the entities are not publicly traded, there is limited or no trading of the type applicable to marketable securities. Nevertheless, as a precautionary measure, National requires quarterly reporting on, and monitors, personal trading activities and holdings of all access persons. The Chief Compliance Officer monitors trading by access persons, relative to client trading, to ensure compliance with applicable requirements. National maintains an internal watch list of securities that are related to investments and securities already held in client accounts. Any proposed personal transaction involving securities on the watch list, as well as any initial private offering (IPO) or private placement in a private fund, requires preclearance from the Chief Compliance Officer. The Chief Compliance Officer

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would not grant preclearance if, in his or her opinion, an access person's personal transaction could disadvantage National's clients. Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming suitable for clients. National believes that, due to its investment strategy of investing in real estate assets, it would be rare for an access person's personal transactions in securities to create impermissible conflicts with clients' investment holdings and opportunities, but such a situation has the potential to arise from time to time. If such a situation does arise, the Chief Compliance Officer will review the facts and determine the appropriate action to take (e.g., prohibit the supervised person from selling his or her holdings in the security while the client is transacting in the security). From time to time, access persons invest in one or potentially more real estate investment trust(s) ("REIT(s)") where the REIT(s) also invests in a client managed by National. Generally, such investments align interests, in National's view, however National's Chief Compliance Officer monitors and tests for potential conflicts of interest.

Item 12. Brokerage Practices

Except occasionally in connection with temporary short-term investments of cash received from client contributions pending investment or the sale of client assets pending further investment or distribution, National neither employs nor engages a securities broker-dealer for any transaction related to any of its real estate investments.

National exercises discretion to invest in real estate and real estate-related investments in accordance with the terms of the investment management agreements it has executed with its clients. That discretion includes the determination to buy or sell real property or to make related real property investments, to select real estate brokers to be used in connection with a real estate transaction, and the commissions to be paid to a real estate broker. In choosing a real estate broker, National considers a number of factors including, but not limited to, the broker's knowledge regarding the specific property and the local market conditions, the type of property involved, the experience of the broker, and the fees to be charged.

Clients' real estate transactions include the provision of specialized services which often justify higher commissions than would be paid for more routine transactions. National is not obligated to seek the lowest available commission rate for the transaction.

National does not have any soft dollar arrangements (i.e., obtaining research and brokerage services with clients' commissions).

Item 13. Review of Accounts

Account Reviews. Accounts under National's management are monitored on an ongoing basis by National's Investment Committee, Investment staff, Asset Management staff,

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Accounting staff and the Chief Compliance Officer. These reviews include, but are not limited to, reviewing the operational and financial performance of each account, as well as the strategic holding of the investment held by the client. The Chief Compliance Officer's monitoring and testing protocols pursuant to National's policies and procedures are designed to seek to identify events which merit further review, analysis and attention. The Chief Compliance Officer reports directly to the General Counsel and Board of Directors with respect to any material matters identified as requiring attention as a result of such testing and reviews.

Client Reports. National's standard practice is to provide periodic reports to clients, including financial statements and investment performance, valuations, and other information relevant to the investment.

In addition, investors in investment funds receive annual audited financial statements performed by an independent auditor registered with and subject to regular inspection by the Public Company Accounting Oversight Board ("PCAOB").

National distributes its audited financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") to clients within 120 days of the end of the fiscal year.

Item 14. Client Referrals and Other Compensation

National does not directly or indirectly compensate any person for client referrals. National does not receive economic benefit(s) from non-clients in connection with the provision of investment advice to clients.

Item 15. Custody

National is considered to have custody of client assets. National reviews statements received from the clients' qualified custodians against its records to verify that the assets held by these qualified custodians are accurately reflected. Clients with funds in National's or a qualified custodian's custody are to receive at least quarterly statements from the custodian of the client accounts, and clients should review these statements and address any questions or concerns with National, if any are identified. If a client receives statements from multiple custodians, the client is urged to compare any such statements.

With respect to the pooled investment vehicle, such client is subject to an annual financial audit conducted by a PCAOB independent accountant. The pooled investment vehicle's audited financial statements prepared in accordance with GAAP are distributed to investors within 120 days of the end of such client's fiscal year. In addition, upon the final liquidation of the pooled investment vehicle, such client will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP to the investors in the liquidated pooled investment vehicle promptly after completion of the audit.

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Item 16. Investment Discretion

National has investment discretion over all clients' accounts. Clients grant National discretion through the execution of an investment management agreement with National. Subject to any restrictions on the amount of capital available to the account or other restriction that a client has required, the investment management agreement provides broad discretion to National consistent with the objectives and strategies discussed above.

Item 17. Voting Client Securities

National invests client assets in real estate investment projects, as described at length in this Brochure, which investments do not involve the voting of proxies. Accordingly, National does not maintain a proxy voting policy.

Item 18. Financial Information

Registered investment advisers are required in this section to provide you with certain financial information or disclosures about their financial condition. Given its assets managed for its clients, National provides reporting information, including independently audited financial statements, as identified in Form ADV Part 1A, National's periodic reporting materials, and as described in this Brochure.

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