

## Form ADV Part 2A Brochure

Prepared Pursuant to Rule 204-3 promulgated under the Investment Advisers Act of 1940

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**This brochure provides information about the qualifications and business practices of Star Asia Management LLC. If you have any questions about the contents of this brochure, please contact us at (856) 281-1801 or e-mail us at [fpoljevka@starasiamanagement.com](mailto:fpoljevka@starasiamanagement.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Additional information about Star Asia Management LLC. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC as an investment adviser does not imply a certain level of skill or training.**

The Date of this brochure is March 30, 2020.

### **Plain English**

For the sake of clarity, this document has been prepared using a minimum of technical legal language and portfolio management jargon.

### **Item 2**

#### **Material Changes Made to this Brochure**

This brochure, prepared and filed on behalf of Star Asia Management LLC. ("Star Asia"), updates the previous version of the brochure dated January 17, 2020.

The material changes to this brochure are as follows:

**Item 4-- Advisory business** – This section was updated to reflect the assets under management as of December 31, 2019. In addition, SACM III Ltd. has been included in the filing of this single Form ADV as a relying adviser filing on Schedule R to Part 1A of Form ADV.

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**Item 3**

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## **Item 4**

### **Advisory business**

Star Asia is one of several affiliated entities in the Star Asia Group family of companies.

Star Asia's principals and executive officers are also principals or executive officers of certain other partnerships or limited liability companies that serve as the general partner or managing member of certain entities affiliated with Star Asia. Please see "Other Financial Industry Activities and Affiliations" below for a further discussion of entities affiliated with Star Asia.

Star Asia is an SEC-registered investment adviser that has been in business since late 2006 and is owned principally by Taro Masuyama and Malcolm F. MacLean IV indirectly through their ownership interest in Suzaku II, LLC and Tsuru II, LLC, respectively. Star Asia is a limited liability company organized in the State of Delaware.

Star Asia and each of Star Asia Advisors III Ltd., Star Asia Advisors IV Ltd. and SACM III Ltd., which are each a relying adviser that file on Schedule R to Part 1A of Form ADV, are filing a single Form ADV. Star Asia, Star Asia Advisors III Ltd., Star Asia Advisors IV Ltd. and SACM III Ltd. collectively conduct a single advisory business. Accordingly, unless otherwise specified, references in this Brochure to "we," "our," and "our Company" refer to Star Asia, Star Asia Advisors III Ltd., Star Asia Advisors IV Ltd. and SACM III Ltd.

On December 18, 2019, Star Asia changed its form of organization from a corporation to a limited liability company. In addition, Star Asia changed its place of incorporation from the Cayman Islands to the State of Delaware.

### **Types of Advisory Services Offered**

We provide investment management services to private funds that primarily invests in Japanese and other Asian commercial real estate and real estate related investments. The funds are exempt from registration as investment companies under the Investment Company Act of 1940, as amended, and its securities are not registered under the Securities Act of 1933, as amended.

Star Asia has only one client, Star Asia Capital Corp. Ltd. ("SACC"). Star Asia Advisors III Ltd., Star Asia Advisors IV Ltd. and SACM III Ltd. each have one client, Star Asia Japan Special Situations III LP ("SAJSS III"), Star Asia Japan Special Situations IV LP ("SAJSS IV") and Star Asia Opportunity III LP ("SAO III"), respectively. SACC, SAJSS III, SAJSS IV and SAO III collectively are referred to herein as the "Funds".

As discussed below, we customarily analyze securities and markets through underwriting, credit assessment, due diligence, risk management, and then continual monitoring. We may also offer advice with respect to a broad range of securities, derivatives, and other financial instruments and investments.

### **Client Assets Under Management**

Our Company provides discretionary investment advisory services to the Funds and has discretionary management authority and responsibility over their assets. As of December 31, 2019, we provided these services to SACC, SAJSS III, SAJSS IV and SAO III with respect to

approximately \$1,057,882,202 in assets under management on a discretionary basis. Our Company has great latitude within the broad parameters of the Funds' investment guidelines in determining the types of assets it may decide are proper for the Funds in accordance with the operating agreements of the Funds.

## **Item 5**

### **Fees & Compensation**

The following is a general description of our fees and other compensation. For additional information, see each Fund's respective offering documents.

#### Star Asia's Compensation

Star Asia is compensated for providing services to SACC pursuant to a management agreement under which Star Asia receives a base management fee payable monthly. Such monthly management fee will be equal to  $1/12^{\text{th}}$  of the product of two percent (2.0%) and the period-end value of SACC's equity.

Additionally, if certain preferred return thresholds are met, Star Asia receives an annual management incentive compensation in an amount up to 20% of SACC's net income distributed in the following way:

(i) for any amounts above the preferred return (8%), eighty percent (80%) will go to Star Asia and twenty percent (20%) will go to SACC until Star Asia has received, on a cumulative basis, 20% of the preferred return and all distributions.

(ii) any balance will be distributed twenty percent (20%) to Star Asia and eighty percent (80%) to SACC.

Star Asia may also elect to receive up to one hundred percent (100%) of its compensation in the form of Class B securities in SACC, subject to unanimous approval of the independent members of SACC's board.

#### Star Asia Advisors III Ltd.'s, Star Asia Advisors IV Ltd.'s and SACM III Ltd's Compensation

Star Asia Advisors III, Star Asia Advisors IV and SACM III receive a management fee equal to the product of (x) one and one quarter percent (1.25%) multiplied by (y) the sum of (i) each limited partner's capital contribution, plus (ii) any gain resulting from the existence of any net distributable cash and/or disposition with respect to which such gain is realized for federal income tax purposes (without regard to applicable withholding taxes with respect to the partnership), minus (iii) any loss resulting from any disposition with respect to which such loss is realized for federal income tax purposes.

In addition, Star Asia Advisors III, Star Asia Advisors IV and SACM III are each entitled to carried interest as set forth in SAJSS III's, SAJSS IV's and SAO III's respective offering documents.

### **Expenses and Allocation of Expenses**

The Funds will pay, or reimburse us, for expenses including, but not limited to:

- expenses of third-party providers for transaction costs incident to the Funds' acquisitions, the costs of legal, tax, accounting, consulting, auditing, administrative and other similar services rendered by third party providers;
- compensation for the Funds' directors and liability insurance for its directors and officers;
- costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Funds;
- expenses incurred by managers, officers, employees and agents of our Company and its Affiliates for travel and entertainment on the Funds' behalf and other out-of-pocket expenses not otherwise required to be borne by our Company;
- the costs of compliance with all federal, state and local rules and regulations;
- taxes and license fees;
- all other costs and expenses relating to our Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees not otherwise required to be borne by us;
- expenses connected with the payments of interest, dividends or distributions;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against the Funds or any subsidiary, or against any trustee, director or officer of the Funds or of any subsidiary in his capacity as such for which the Funds or any subsidiary is required to indemnify such trustee, director or officer by any court or governmental agency, or settlement of pending or threatened proceedings or by the charter and bylaws of the Funds;
- all other expenses actually incurred by us, which are reasonably necessary for the performance of our duties and functions under the management agreement (other than employment expenses and officers dedicated to our Company, including, without limitation, salaries, wages, payroll taxes and the cost of employee benefit plans of such persons).

See the Funds' respective offering documents or limited partnership agreements for further discussion of expenses.

### **Termination of Services**

Unless the management agreement is terminated by Star Asia or for cause, Star Asia will be paid a termination fee under our management agreement of an amount equal to three times the sum of (i) the average annual base management fee for the two 12-month periods immediately preceding the effective date of termination plus (ii) the average annual incentive compensation earned by Star Asia during the two 12-month periods immediately preceding the date of such termination.

See SAJSS III's, SAJSS IV's and SAO III's respective offering documents or limited partnership agreements for further discussion of termination of services.

## **Item 6**

### **Performance-based fees and side-by-side management**

We charge the Funds a performance-based fee for its services, as discussed above. The prospect of earning performance-based fees may create an incentive for us to make investments that are riskier or more speculative than we would make in the absence of a performance-based fee.

Star Asia is a member of a group of related companies including other investment advisers that have no US nexus. Conflicts of interest may be deemed to exist when determining the proper allocation amongst clients through these other entities. Star Asia has a policy to minimize any conflicts that may arise as set out in the compliance manual.

While we charge incentive fees to the Funds, there is little chance of conflict between accounts. If Star Asia, Star Asia Advisors III Ltd., Star Asia Advisors IV Ltd. and SACM III Ltd. were to acquire additional clients unaffiliated with the Funds, this may cause conflicts of interest. Where we would manage accounts that pay performance-based fees side-by-side with client accounts that do not pay such fees, there may be an incentive to favor client accounts from which we expect to receive greater fees.

The incentive distribution that we are entitled to receive may cause us to invest in high-risk investments or take other risks that are not in SACC's best interests. In addition to its base management fee payable under the management agreement, we are entitled to receive an incentive distribution based upon SACC's achievement of specified levels of its net income. In evaluating investments and other management strategies, the opportunity to earn the incentive distribution based on SACC's net income may lead us to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, and/or management of credit risk or market risk, in order to achieve higher incentive distributions. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of SACC's invested portfolio.

## **Item 7**

### **Types of clients**

Star Asia provides investment advice to SACC. SACC is a private fund which primarily invests in Japanese and other Asian commercial real estate and real estate related investments. Star Asia has no other clients. Star Asia Advisors III Ltd. provides investment advice to SAJSS III, a private fund vehicle with a limited investment period and term that invests in Japanese real estate and real estate-related investments. Star Asia Advisors IV Ltd. provides investment advice to SAJSS IV, a private fund vehicle with a limited investment period and term that invests in Japanese real estate and real estate-related investments. SACM III Ltd. provides investment advice to SAO III, a private fund vehicle with a limited investment period and term that invests in Japanese real estate and real estate-related investments.

## Item 8

### **Methods of analysis, investment strategies and risk of loss**

While more information can be found in the Funds' respective offering documents, in general, our investment strategy is one of making, holding, monitoring, and disposing of investments in real estate and real estate related equity and debt throughout Asia.

We manage and advise the Funds in the acquisition of three broad asset classes in order to achieve the Funds' goal of generating income and capital gains returns for their investors:

- **Real Estate.** The Funds invest directly and/or indirectly in real estate properties and other real estate-related assets throughout Asia. We may also recommend that the Funds purchase underperforming or otherwise distressed real properties in order to reposition them for profitable disposition. The Funds may also invest in holding companies, corporations, joint ventures, partnerships, funds, special purpose vehicles or any other entity that partially or wholly hold real estate assets. The Funds may also acquire land for development or investment.
- **Debt.** The Funds may invest in public or private debt of real estate companies and other companies including public or private REITs, real estate operating companies, partnerships and other entities. They may also invest in A-Notes, B-Notes, CMBS, whole loans, mezzanine loans, defaulted or non-performing loans, as well as CDOs and other structured debt or products.
- **Public or Private Equity:** We will invest in equity, preferred equity, convertible equity, or other equity-linked securities of public and private companies that partially or wholly hold real estate assets or securities in Asia.

These strategies involve short to long-term investment in commercial real estate and real estate related investments.

### **Hedging and Risk Management Strategy**

We may seek to hedge the Funds' exposures to exchange rate fluctuations as well as interest rates.

**Exchange Rates.** Currently, all of the Funds' assets (including cash) are denominated in U.S. Dollars and Japanese Yen. We may in the future use derivative financial instruments, such as currency options, swaps or forwards, to partially or fully hedge currency risk and other market risk relating to the target countries in which we are investing.

In the event we believe that any form of hedging would be cost effective, we will hedge at the levels we would consider appropriate. At present, we do not believe that such hedging is effective given the market-to-market (i.e., daily collateral posting requirement) and other requirements of these hedging instruments.

**Interest Rates.** We may use derivative contracts, such as interest rate swaps, interest caps and interest rate forwards, to partially or fully hedge interest rate risk. The Funds' financing strategy



may include fixed rate financing in certain circumstances where it makes sense to do so. In addition, we will also use term financing where appropriate to enable us to more closely match fund assets and liabilities.

All derivative hedging instruments used to mitigate currency risk or interest rate risk will be formally documented with regard to the respective hedged transactions. Before we enter into any derivative contracts, it considers and evaluates the desired hedging strategy, the costs and risk associated with such hedges and measures used to assess the hedge's effectiveness. After entering into such derivative transactions, we will periodically review the effectiveness of the hedging strategy.

We have considerable experience in the fields of real estate and real estate-related investing and finance, capital markets, transaction structuring and risk management.

### **Risk Factors**

You should review the most recent offering document for our Funds for more detailed discussion of the risks associated with investment in Asian commercial real estate. The risks of the Funds' strategy include, but are not limited to the following:

- The Funds' articles do not impose any limitations on the extent to which we use leverage.
- Interest or exchange rate fluctuations could negatively affect the value of the Funds' investments.
- The Funds rely on their ability to maintain external financing.
- Investing in real estate in Asia brings certain levels of political risk. Tensions between North Korea and its neighbors, between China and Taiwan and between Japan and both Korea and China may intensify and any increase in these historical tensions could materially affect the Funds.
- Natural disasters, such as typhoons and earthquakes, are common in the regions in which the Funds invest and could materially affect the value of real estate in the affected areas.
- Foreclosure on real estate assets in Asia differs from the practice in the United States and may be significantly more difficult, expensive and time consuming than in the United States.
- Property owners in Japan may be held strictly liable for the removal of hazardous waste or toxic substances.
- Investing in real estate entails a significant lack of liquidity.

Additional details of some of these risks are included below:

#### **The Funds' Investments may involve an above-average degree of risk.**

The investments the Funds make in accordance with its investment objectives may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investment recommendations may be highly speculative and aggressive.

#### **The Funds operate in a highly competitive market.**

A number of entities compete with us for investment opportunities. We compete with public and private funds and companies, institutional investors, sovereign wealth funds, commercial and investment banks, commercial finance companies and super high net worth individuals for a limited amount of real estate and real estate-related assets located in Asia. Many of its competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to the Funds. In addition, some of the Funds' competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships. We cannot be sure that the competitive pressures the Funds face will not have a material adverse effect on the Funds' business, financial condition and results of operations. Also, as a result of this competition, the Funds may not be able to take advantage of attractive sourcing and investment opportunities from time to time, and we can offer no assurance that we will continue to be able to identify and pursue opportunities that are consistent with the Funds' objectives.

### **Risks Related to Financings**

The Funds' ability to operate its business depends on its ability to maintain external financing.

The Funds require a substantial amount of money to operate its business. To date, they have obtained this money through issuing equity and subordinated debt, borrowing money from banks and financial institutions, securitization transactions, and repurchase agreements. Access to these and other types of external funding depends on a number of factors, including general market conditions, the markets' and lenders' perceptions of the Funds' business, its current and potential future earnings and the market price of its shares. If the current markets become more volatile or worsen, it is not certain that sufficient funding and capital will be available to the Funds on acceptable terms or at all. Without sufficient funding, the Funds would not be able to continue to operate.

The Funds' significant level of debt and interest payment obligations may limit their ability to compete, may expose them to interest rate risk to the extent of their variable-rate debt, and may prevent it from meeting its obligations.

As of December 31, 2019, the Funds' total indebtedness was approximately \$270,714,348, including \$228,084,756 of loans and \$42,629,592 of subscription line financing. This substantial level of indebtedness could have important consequences. For example, it may:

- make it more difficult to satisfy the Funds' financial obligations;
- increase the Funds' vulnerability to general adverse economic and industry conditions, including interest rate fluctuations, because a significant portion of its borrowings are at variable rates of interest;
- require the Funds to dedicate a substantial portion of their cash flow from operations to payments on their indebtedness, thereby reducing the availability of the Funds' cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit their ability to borrow additional funds to expand their business or to alleviate liquidity constraints, as a result of financial and other restrictive covenants in their indebtedness;
- limit the Funds' ability to refinance all or a portion of its indebtedness on or before maturity;

- limit the Funds' flexibility in planning for, or reacting to, changes in its business and industry; and
- place the Funds at a competitive disadvantage relative to companies that have less indebtedness.

**Investing in Japanese real estate-related assets involves a variety of risks related to Asia generally and Japan specifically.**

Investing in Asian real estate and real estate-related assets involves political risks across the region. Political risks include tensions between North Korea and its neighbors, which have intensified in connection with North Korea's nuclear weapons program and increased militarization; tensions between China and Taiwan and the increased military capabilities of both of them; and tensions between Japan and both Korea and China. Any increase in these historical tensions, or others, could materially adversely affect the Funds' financial condition and results of operations.

While the Funds currently invest primarily in assets and investments in Japan, they may also invest in real estate and real estate-related assets in other Asian territories or countries, such as Singapore, Hong Kong, China, Korea, Taiwan, or India, or in Australia. Acquiring real estate-related assets relating to these countries may include additional risks, including political instability, economic and exchange risk volatility, legal and regulatory changes, political and judicial corruption or lack of transparency. These countries or others where the Funds may acquire real estate or real estate related assets may also have legal systems that impose restrictions on foreign investment or will not allow for eviction or foreclosure of real estate collateral as would be typical in the United States.

Further, in certain countries where commercial bribery or other illegal business practices are more prevalent, the Funds may be at risk to the extent that their joint venture partners or service providers engage in such activities. In the event they acquire real estate or real estate related assets in these or other countries and encounter these or other risks, the Funds' financial condition or results of operations could be materially adversely affected.

Natural disasters, such as typhoons and earthquakes, are common in the regions in which the Funds invests and could materially adversely affect the value of real estate in an affected area.

Many typhoons and other tropical storms, as well as earthquakes affect parts of Asia. As many areas are highly populous, these natural disasters have sometimes negatively impacted the local economy and the value of real estate damaged by the storm. Any typhoons or tropical storms in the future could materially adversely affect the value of underlying real estate-related assets.

Since 1997, the real estate sector in Asia has experienced volatility. If this volatility were to continue, it could negatively impact the value of the Funds' assets.

**Foreclosure on real estate assets in Asia differs from the practice in the United States.**

The Funds will invest in a variety of Asian real estate and real estate-related assets, some of which may be collateralized by real property. The ability to enforce security interests differs in each Asian jurisdiction and may be significantly more difficult, expensive and time consuming than in the United States. To the extent the Funds are unable or delayed in enforcing security interests in real property, their financial condition and results of operations could be materially adversely affected. For example, the rights of tenants in Japan and other countries are far greater than in the United States, and eviction of tenants or squatters is far more difficult.

**There are significant risks related to the Funds' investments in Japan.**

**Seismic risk.** Properties located in Japan or other countries are vulnerable to earthquakes and other seismic activity. In the event that any property relating to the Funds' real estate or real estate-related assets is affected by seismic activity, the cash flow from the property may be reduced, which could negatively impact the value of the portfolio assets relating to properties located in Japan or other countries.

**Environmental risk.** Property owners in Japan or other countries may be held strictly liable for the removal or remediation of hazardous waste or toxic substances, such as lead and arsenic. Property owners could also be liable for asbestos and other substances. Accordingly, in the event there are hazardous or toxic substances in connection with properties located in Japan relating to the portfolio assets, the value of those assets could be materially adversely affected.

**Lease and Building Lease Law (shakuchi shakka ho) (Law No. 90 of 1991).** Under this law, a landlord may not reject the request of a tenant for a lease renewal without "justifiable cause," which Japanese courts rarely acknowledge. The Land Lease and House Lease Law generally affords tenants more rights than would be typical in the United States, which could negatively impact the Funds' ability to realize the value of the portfolio assets relating to real property located in Japan.

**Japanese holding structure.** The Funds may from time to time hold certain Japanese assets indirectly through a Japanese special purpose company that issues bonds to SACC and uses the proceeds from the issuance to acquire the underlying assets. However, no security interest (including any security interest over the equity interest in the issuer of the bonds or any of the underlying assets) was created or granted to any of the parties to the agreement under which the bonds were issued or to the holders of the bonds. Rather, the bonds are unsecured, limited recourse obligations of the issuing company, the only significant assets of which are the underlying assets purchased from the proceeds of the bonds. Consequently, the Funds must rely solely on amounts received in respect of the underlying assets for the payment of principal and interest on the bonds, and if the underlying assets are exhausted, the obligations of the issuer of the bonds to the Funds will be extinguished. In addition, while there are contractual obligations of the company with respect to the underlying assets, neither the Funds as the bondholders nor any other party to the agreement under which the bonds are issued on its behalf has direct rights to the underlying assets. The Funds may not realize gains or income from its investments.

The Funds seek to generate both current income and capital appreciation from its investments. However, the Funds' investments may not appreciate in value and, in fact, may decline in value,

and the financings that we source and the securities that we invest in may default on interest and/or principal payments. Accordingly, the Funds may not be able to realize gains or income from its investments. Any gains that the Funds realize may not be sufficient to offset any other losses we experience. Any income that the Funds realize may not be sufficient to offset its expenses.

**There may be uncertainty as to the value of the investments that are recorded at fair value.**

Some of the Funds' investments may be in the form of securities that may or may not be publicly traded, trade infrequently, or that do not trade in a liquid market. These investments will be recorded based on (1) the market prices for publicly listed securities and (2) for privately held securities, the average of (A) quotes by an independent pricing service or dealer marks for all other investments when available and (B) the valuation determined by us in good faith based on our internal pricing models that use the discounted cash flow methods for those investments that are not publicly listed and for which dealer marks are not available. The fair value of securities and other investments that are not publicly or liquidly traded may not be readily determinable. Although all of the Funds' investments are recorded based on dealer marks or third-party estimates, the Funds value some investments quarterly at fair value as determined in good faith by the manager based on certain factors, including but not limited to, the rating of the asset, the yield of the asset, the price of other comparable assets or companies and other relevant factors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates. Our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed.

SACC invests in real estate assets and, as of December 31, 2019, is the owner of 2 trust beneficiary interests backed by real property in Japan that may have limited liquidity. These investments are recorded at fair value based on third-party appraisals.

SAJSS III invests in real estate assets, including real estate properties and other real estate-related assets.

SAJSS IV invests in real estate assets including real estate properties and other real estate-related assets.

SAO III invests in Japanese real estate assets including real estate properties and other real estate-related assets.

Our Company is exposed to certain risks related to interest rate and currency fluctuations. While we may hedge against these risks in the future, there is currently no hedging activity. A change in the investment guidelines of the Funds may increase the exposure to currency or interest rate fluctuations.

**Global health risks exist which may impact the Funds' investments**

Disease outbreaks, such as the outbreak of coronavirus disease 2019 ("COVID-19"), that affect local economies or the global economy may materially and adversely impact our investment portfolios and/or our business. COVID-19 has been declared a pandemic as of March 11, 2020, with cases recorded in at least 180 countries and territories worldwide. These types of outbreaks have the potential to cause severe decreases in core business activities such as manufacturing, purchasing, tourism, business conferences and workplace participation, among others. These disruptions also have the potential to lead to instability in the marketplace, including market losses and overall volatility. In the face of such instability, governments may take extreme and unpredictable measures to combat the spread of disease and mitigate the resulting market disruptions and losses. In the event of a pandemic or an outbreak such as COVID-19, there can be no assurance that we or our service providers will be able to maintain normal business operations for an extended period of time or will be able to retain the services of key personnel on a temporary or long-term basis due to illness or other reasons. The full impact, duration, intensity and consequences of a pandemic or disease outbreaks such as COVID-19 is unknown, which could result in a high degree of uncertainty for potentially extended periods of time.

**Real estate investments are subject to risks particular to real property.**

The Funds own real estate assets and equity investments in real estate. Real estate is subject to certain risks, including:

- acts of God, including earthquakes, floods, and other natural disasters;
- acts of war and terrorism, including terror attacks;
- adverse changes in the local economy and market conditions; and
- change in laws, regulations, fiscal policies or zoning.

To the extent any real property that the Funds own or hold an interest in experiences any of these (or any similar) events, the value of that asset could be materially adversely affected.

A prolonged economic slowdown, a recession or declining real estate values could impair the Funds' investments.

Many of the Funds' investments may be susceptible to economic slowdowns or recessions, which could lead to financial losses in its investments and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase funding costs, limit the Funds' access to the capital markets or result in a decision by lenders not to extend credit to the Funds. Further, real estate investments are more illiquid than certain other types of investments. A lack of liquidity may make it more difficult for our Funds to achieve their investment goals.

The commercial mortgage loans in which the Funds may invest are subject to delinquency, foreclosure and loss, which could result in losses.

Commercial mortgage loans are secured by multi-family, commercial or other property 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 single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent

primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower.

In the event of any default under a commercial or other mortgage loan held directly by the Funds, they will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on its cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy director or debtor-in-possession to the extent the lien is unenforceable under state law.

Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on the Funds' anticipated return on the foreclosed mortgage loan. This is especially true in Japan, where the Funds currently have assets. The legal systems in many of these locations are far more lenient to tenants and squatters, and the process of eviction and foreclosure tends to be lengthier and often more expensive than a similar process in the United States.

The frequency at which prepayments occur on a mortgage loan is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, the values of the commercial property may be adversely affected.

**Our due diligence may not reveal all of an entity's liabilities and may not reveal other weaknesses in its business.**

Before sourcing an investment for, or making an investment in, an entity or asset, we will assess the strength and skills of the entity's management and other factors to determine the potential for success of the investment. In making the assessment and otherwise conducting customary due diligence, we expect to rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly organized entities because there may be little or no information publicly available about the entities. Against this background, there can be no assurance that our due diligence processes will uncover all relevant facts or that any investment will be successful.

We may be exposed to environmental liabilities with respect to properties to which it takes title.

In the course of its business, the Funds may take title to real estate, and, if they do take title, they could be subject to environmental liabilities with respect to these properties. In such a circumstance, the Funds may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or the Funds may be required to investigate or

clean up hazardous or toxic substances, or chemical releases at a property. Many of the countries or regions where the Funds' underlying real estate-related assets will be located are in the process of significantly changing their environmental regulations. New environmental regulations, or the arbitrary or unpredictable enforcement of current regulations, may make it difficult to predict and prepare for environmental claims. The reputational and actual costs associated with investigation or remediation activities could be substantial.

**The Funds have very broad investment guidelines and our investment decisions may not receive the review of a board of directors or independent party.**

The Funds' respective offering documents and limited partnership agreements include broad investment guidelines for our Company and investment decisions are our responsibility.

We have great latitude within the broad parameters of the Funds' investment guidelines in determining the types of assets it may decide are proper investments for the Funds. As a result, transactions entered into by us on the Funds' behalf may be difficult or impossible to unwind by the time they are reviewed, if at all, by a board of directors or independent party, which could result in the acquisition of assets that are not in the best interests of the Funds' shareholders.

## **Item 9**

### **Disciplinary information**

Star Asia is registered with the SEC as an investment adviser. Star Asia and its principals, Malcolm F. MacLean IV and Taro Masuyama, have no disciplinary record with the SEC or with any other regulatory authority, domestic or foreign. In the ordinary course of business, Star Asia may be examined by the SEC and, as part of that examination, may be requested to amend certain policies, procedures or practices to better conform with applicable regulation.

## **Item 10**

### **Other financial industry activities and affiliations**

We are members of a diverse group of financial industry companies that focus primarily on the acquisition, operation and disposition of real estate and real estate related assets in Asia, with a focus on Japan. As a result of the sometimes overlapping nature of the assets in which these companies deal, occasional conflicts of interest may arise.

Some of the companies in the Star Asia Group with which these conflicts may arise are:

- Star Asia Partners III Ltd., general partner of Star Asia Japan Special Situations III LP.
- Star Asia Partners IV Ltd., general partner of Star Asia Japan Special Situations IV LP.
- SAO III GP Ltd., general partner of Star Asia Opportunity III LP.

There are conflicts of interest related to our affiliations with other companies in the Star Asia Group that may increase risk to the Funds. For example, investment activities by our affiliates separate from the Funds have added, and may continue to add, to the obligations and



responsibilities of the investment professionals at our Company, which may negatively impact their ability to devote sufficient time to the Funds.

Malcolm F. MacLean IV and Taro Masuyama are principals and direct or indirect owners of Star Asia Advisors and the Star Asia Partners companies, listed above, which serve as advisers and managers of several vehicles, particularly the Star Asia Japan Special Situations partnerships and the Star Asia Opportunity companies, that invest in real estate with the same general asset classes as the Funds and the companies in which it invests. Situations may arise in which these companies would compete over or co-invest in potential investments.

There are conflicts of interest in our relationship with the Funds that could result in decisions that are not in the best interests of the Funds. In addition, Malcolm MacLean and Taro Masuyama directly and indirectly own interests in or shares of the Funds. Malcolm F. MacLean IV and Taro Masuyama are the only members of the Funds' management. Our Company and its owners and affiliates have legal and reputational obligations with regard to investors in other vehicles managed and advised by these affiliates who will also consider and make investments in Asian real estate and real estate-related assets separate from their involvement with the Funds. Similarly, our Company and its members and affiliates manage and have substantial investments in real estate and real estate-related assets. In addition, we may engage in additional management or investment opportunities that may have overlapping objectives with the Funds or the companies in which they invest. Finally, our base management fee is based on the amount of the Funds' equity and is payable regardless of the Funds' operating performance. Any equity raised by the Funds will increase the manager's base management fee accordingly.

None of the members of Star Asia's principals are exclusively dedicated to the Funds' business. Accordingly, members of our management have competing obligations to other entities, which could result in decisions that are not in the Funds' best interests.

Furthermore, Star Asia is wholly owned by Tsuru II LLC and Suzaku II LLC. Tsuru II LLC and Suzaku II LLC are owned by Star Asia Group LLC.

Star Asia Advisors III Ltd is wholly owned by Tsuru IV LLC and Suzaku IV LLC. Tsuru IV LLC and Suzaku IV LLC are owned by Star Asia Group LLC.

Star Asia Advisors IV Ltd. is wholly owned by SAJSS IV LLC. SAJSS IV LLC is owned 100% by Star Asia Group LLC. Star Asia Group LLC is owned by Tsuru Holdings LLC and Suzaku Holdings LLC. Tsuru Holdings LLC is owned by Malcolm F. MacLean. Suzaku Holdings LLC is owned by Taro Masuyama.

SACM III Ltd is owned by Tsuru SAO III LLC and Suzaku SAO III LLC. Tsuru SAO III LLC and Suzaku SAO III LLC are owned by Star Asia Group LLC.

Malcolm MacLean IV and Taro Masuyama own Star Asia Asset Advisors Ltd ("SAAA"), a Japanese domestic property-level asset manager, that may provide property level asset management services to properties acquired and owned by SACC and to properties acquired by SAJSS III and SAJSS IV. Star Asia ensures that SACC, SAJSS III and SAJSS IV pay SAAA a market rate for its services based on SACC's extensive history of paying and continued use of

independent third parties for these services. Malcolm MacLean IV and Taro Masuyama are not involved in the day-to-day operations of SAAA.

Because our Company and its members and affiliates have significant influence over the Funds and their affairs, these transactions may not be on as favorable terms to the Funds as if such transactions were negotiated with independent third parties. Although Star Asia has adopted certain policies relating to conflicts of interest requiring, among other things, that transactions in which directors or executive officers have a conflicting interest to Fund's interests be reviewed and approved by the Chief Compliance Officer ("CCO"), Star Asia's policies may not be successful in eliminating the influence of such conflicts.

## **Item 11**

### **Code of ethics, participation or interest in client transactions and personal trading**

We have adopted a Code of Ethics that sets forth standards of conduct expected of all of our personnel. The Code describes key legal and fiduciary standards and requires personnel to comply with all applicable laws and regulations. The Code also includes policies addressing outside activities, giving and receiving of gifts or entertainment, and personal investment activity by personnel in their own accounts.

Our CCO is responsible for ensuring that our Company receives initial and annual holdings reports and duplicate brokerage account statements for anyone who is deemed as Access Person as defined in the Code of Ethics who has a securities account with a broker-dealer. A review of the trading activity of our personnel with such securities accounts will be conducted quarterly to ensure that the personnel comply with our Company's personal trading policy.

**A copy of the Code of Ethics is available to any current or prospective Clients upon request. Requests for a copy should be sent to the address listed on the cover page.**

The Funds are subject to conflicts of interest relating to Tsuru II LLC and Suzaku II LLC and their respective affiliate, Star Asia, because upon termination of the management agreement, the Fund is required to pay us a termination fee equal to three times the sum of (a) the average annual base management fee for the two 12-month periods immediately preceding the date of termination plus (b) the average annual incentive amount as determined under the LLC's operating agreement for the two 12-month periods.

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

Star Asia recommends and believes it is in the best interest of SACC to execute certain transactions involving the purchase, guarantee of the purchase, or sale of certain real estate and other assets by SACC (acquired from one or more affiliates in a manner consistent with those affiliates' governing documents), and such real estate and other assets' subsequent sale to the Star Asia Investment Corporation, a Japanese real estate investment trust (such transactions being "Affiliate Transactions").

Star Asia will provide full written disclosure to the investors in SACC with respect to each Affiliate Transaction, including, but not limited to: (i) the nature of the Affiliate Transaction; (ii) the date of the closing of the Affiliate Transaction and (iii) the source and amount of

compensation the Manager will receive in connection with the Affiliate Transaction, which is anticipated to include only the base management fee described above in Item 5. Star Asia shall also send the investors, no less than annually, a written disclosure statement that identifies the total number of Affiliate Transactions executed during the period since the date of the last such statement, and the total amount of the compensation received or to be received by Star Asia, which is not intended to exceed the base management fee.

## **Item 12**

### **Brokerage practices**

We have discretion to select broker-dealers to effect client account transactions, although doing so would be rare. To the extent necessary, however, we follow certain protocol. In selecting broker-dealers, we will take into consideration the broker-dealers' general ability to execute transactions in a timely manner; their experience with the asset class or types of securities relevant to the transaction; the reasonableness of fees and commissions; and the availability of quality analytical materials, including research. Within the bounds of our duty to provide "best execution" for its client accounts, we may cause the accounts to pay higher fees or commissions than might be available through other broker-dealers. We may have an incentive to select or recommend a particular broker-dealer, but we will always take into account a combination of qualitative and quantitative factors in determining which broker-dealers to use for client account transactions, including commission cost, the availability of research, responsiveness of the broker-dealer, willingness to assume principal risk, and other qualitative factors as discussed above. Research obtained by directing certain transactions to certain broker-dealers will be used for all clients and all clients will therefore benefit from such research, all else being equal. Presently, we have not entered into any soft dollar or directed brokerage arrangements with any broker-dealer but may enter into such arrangements in the future. Generally, such arrangements will be consistent with the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended, unless arrangements outside of Section 28(e) are required and consistent with the policies and objectives of certain hedge funds or other institutional clients advised/managed by us, consistent with Star Asia's fiduciary duties under the various securities laws.

Our brokerage practices on behalf of its client may be modified based upon its governing documents and will be tailored as needed for new clients.

## **Item 13**

### **Review of accounts**

Our analytic approach to the investment process for our target markets involves underwriting, credit assessment, due diligence, risk management, and then continual monitoring of its investments. All decisions are approved by our management, unless delegated to an advisory committee, who act unanimously by members permitted to vote.

The Funds' investments are monitored by our investment team and senior management on a regular basis. Our management consists of Malcolm F. MacLean IV and Taro Masuyama. In accordance with our shareholders agreement, the management has delegated decisions relating to the Funds' business to an advisory committee consisting of Malcolm F. MacLean and

Taro Masuyama. The committee meets as necessary to review investment opportunities and portfolio composition. The advisory committee and, if necessary, the management approves all investment decisions made on behalf of the Funds.

Investors in the Funds receive written quarterly reports of relevant financial information and a summary description of the Funds' investments. The investors will also receive written annual audited financial statements and interim quarterly financial statements.

#### **Item 14**

##### **Client referrals and other compensation**

In limited circumstances, we have engaged agents to introduce us to potential limited partners. These referral arrangements for which we pay third-parties compensation for limited partner introductions are executed in a manner consistent with our compliance policies and procedures, including the Code of Ethics.

#### **Item 15**

##### **Custody**

With certain exceptions, Rule 206(4)-2 under the Investment Advisers Act, commonly known as the "Custody Rule," requires registered investment advisers who are deemed to have custody of client funds and securities to satisfy certain requirements. An adviser is deemed to have custody of client assets when it has the authority to obtain possession of them. Under this standard, we are deemed to have custody of the investments in the Funds.

We are deemed to have custody, and therefore, subject to the Custody Rule are required to hold the Funds' investments with a "Qualified Custodian." No securities or assets required to be held at a Qualified Custodian are currently held by a custodian affiliated with us.

Wells Fargo Bank, National Association and the Funds entered into a custodian agreement pursuant to which Wells Fargo undertakes certain custodial duties on behalf of the Funds. Under the Custody Agreement, Wells Fargo has agreed to serve as custodian of the Funds' investments, cash and other assets and accepts responsibility for the safe custody of the property of the Funds delivered to and accepted by the Wells Fargo. Wells Fargo performs services related to clearing transactions, short sales, loans and dealings.

Pursuant to the Custody Rule, the Funds receive annual audits of their financial statements performed by an independent public accountant registered with and subject to regular inspection by the Public Company Accounting Oversight Board (PCAOB). In addition, audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and distributed to all fund investors within 120 days of the end of each Fund's fiscal years. Investors should carefully review such statements.

#### **Item 16**

### **Investment discretion**

We will customarily have and exercise discretionary investment authority over client accounts, and we exercise such discretion with respect to the Funds. Within broad guidelines as set forth in the operating agreements of the Funds, we have authority to make trades on behalf of the Funds.

### **Item 17**

#### **Voting client securities**

As the Funds focus on the acquisition, disposal and related transactions involving commercial real estate, the voting of proxies will generally not be an operational concern. If we accept authority to vote client proxies, this activity would be in accordance with the protocol established in Star Asia's compliance policies and procedures. As part of Star Asia's management obligations, it is required to vote proxies on equity securities held in client portfolios (unless the client assumes that responsibility). In accordance with applicable law, including Rule 206(4)-6 of the Advisers Act, we have prepared procedures to govern how such proxies are voted. The procedures require that a reasonable decision be made regarding a vote on any matters recommended by issuer management or concerning any issuer shareholder proposals. The procedures require that if we determine not to vote, we must have a reasonable basis for withholding our vote. The policies and procedures address the handling of conflicts of interest that may arise in the voting of proxies. Our vote on any matter regarding any issuer's securities will be recorded and kept on file in our office. A client may request to see how we voted any proxy, and obtain an explanation as to why we voted as we did. Requests for an explanation of votes, or for a copy of Star Asia's proxy voting policies and procedures, should be sent to the address listed on the cover page.

### **Item 18**

#### **Financial information**

We are solvent and are not in a "precarious financial condition" (as that phrase is defined or used by the SEC). We are not currently aware of any financial condition affecting our Company that is reasonably likely to impair our ability to meet our contractual commitments to the Funds.

#### **For further information, please contact**

##### **Frank Poljevka**

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**Concerning communications with clients; Additional Information**

We seek to communicate with clients in the most efficient manner possible. To that end, we intend to use e-mail to communicate with clients in lieu of paper mail, unless otherwise requested. Clients should expect all communications to be effected electronically once they have provided preferred e-mail addresses and appropriate consents to an authorized representative of our Company. Clients may be asked to provide consent to the receipt of regulatory disclosures or other documents, statements and other information in electronic form, and are urged to provide such consents, as this will accelerate the receipt of important information.