

## Item 1 – Cover Page

LH Capital Management, LLC

315 Montgomery Street, Floor 16  
San Francisco, CA 94104  
415-202-6400

<http://www.lhcapitalmanagement.com/>

March 30, 2020

Form ADV, Part 2A; our “Disclosure Brochure” or “Brochure” as required by the Investment Advisers Act of 1940 is a very important document between Clients (you, your) and “LHCM” (us, we, our). This Brochure provides information about our qualifications and business practices.

***This brochure provides information about the qualifications and business practices of LH Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 415-202-6400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.***

***Additional information about LHCM also is available at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.***

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

## Item 2 – Material Changes

This brochure (“Brochure”) serves as an update to LH Capital Management, LLC’s Form ADV Part 2A brochure, dated March 27, 2019 and contains updates to the prior Brochure. This amendment filing discusses only the material changes that have occurred since the last update of this brochure, which are as follows:

- Per the requirements of Form ADV, Part 2, we have updated our Assets Under Management as of December 31, 2019 to \$14,851,638.
- On July 11, 2019, the limited partners of the Fund agreed to permit an early termination of the Fund’s loan purchase commitments to LendingHome Funding Corporation effective after the June 2019 loan purchase commitment.
- Beginning in June 2019 the Fund began to effect the return of Capital Contributions to the limited partners.
- As the Fund winds down, the General Partner may also evaluate all alternatives to expedite the return of capital, such as partial portfolio sales, or decide to foreclose or rehabilitate REO properties, all while also adhering to the fund's objective of capital preservation.

From time to time, we may amend this Brochure to reflect changes in our business practices, changes in regulations and routine annual updates as required by securities regulators. This complete Brochure or a Summary of Material Changes shall be provided to each client annually and if a material change occurs in the business practices of LH Capital Management, LLC. If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer, Nora Gibson at 628-246- 2672.

## Item 3 -Table of Contents

Item 1 – Cover Page.....	
Item 2 – Material Changes .....	i
Item 3 -Table of Contents .....	i
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	5

Item 7 – Types of Clients.....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information.....	11
Item 10 – Other Financial Industry Activities and Affiliations.....	11
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12 – Brokerage Practices .....	15
Item 13 – Review of Accounts.....	15
Item 14 – Client Referrals and Other Compensation.....	15
Item 15 – Custody .....	15
Item 16 – Investment Discretion.....	17
Item 17 – Voting Client Securities (i.e., Proxy Voting).....	17
Item 18 – Financial Information .....	17
Item 19 – Requirements for State-Registered Advisers .....	17

## Item 4 – Advisory Business

LH Capital Management, LLC (“LHCM”) was formed on February 14, 2017 to provide investment advisory services to private funds. LHCM is wholly owned by LendingHome Corporation (“LendingHome”). LendingHome, the parent company, is a private residential mortgage finance business and market leader for short-term loans to property investors.

LHCM serves as the investment advisor or manager to LendingHome Opportunity Fund II (A), L.P., a Delaware limited partnership (“Partnership A”) and LendingHome Opportunity Fund II (B), L.P., a Delaware limited Partnership (“Partnership B” and, together with Partnership A, the “Partnerships” and the Partnerships together with any feeder vehicles, the “Fund”). The Fund was formed by senior principals of LendingHome to originate or acquire short-term mortgages, participation interests, or deeds-of-trust (collectively, the “Loans”) made to property investors and secured by residential real estate. The primary focus of the Fund is to provide debt capital to investors in the business of rehabilitating one-to-four-unit residential properties in the United States (“Residential Bridge Loans”). The general partner of the Fund is LendingHome Investment Partners II LLC, (the “General Partner”), which is controlled by LHCM, which is wholly owned by LendingHome.

LHCM oversees all activities of the Fund, including investment selection, portfolio management, fund administration, operations and investor services. LHCM services are tailored specifically to the Fund, but not to the individual needs and objectives of the beneficial owners of the Fund. LHCM ensures that investment objectives and guidelines of the Fund are adhered to by actively selecting investments and monitoring the existing investments including workouts/dispositions. LHCM also assists the Fund in accessing capital markets to efficiently finance, structure or securitize pools of loans for the Fund’s investment.

The Fund provides investors with access to a diversified portfolio of loans originated directly or purchased from its affiliate, LendingHome Funding Corporation (“LHFC”) (each an “Originator”). The Loans are secured by non-owner occupied residential real estate properties. The primary Loan acquisition channel is through a strategic partnership with LendingHome. LendingHome originates, services and asset manages loans in-house and relies on a network of appraisers, real estate agents and inspectors for quick, local market and property analysis.

The Fund is subject to various conflicts of interest arising out of its relationship with LHFC, LendingHome and LHCM. None of the agreements and arrangements between LendingHome, LHFC, the Fund, and LHCM, including those relating to compensation, resulted from arm’s-

length negotiations. These conflicts of interest are discussed throughout this document and were disclosed to current investors in the Private Placement Memorandum (“PPM”) for the Fund.

As of December 31, 2019, LHCM managed \$14,851,638 in discretionary client assets.

## **Item 5 – Fees and Compensation**

The Fund pays an annual management fee (the “Management Fee”) to LHCM. The Management Fee is payable quarterly in arrears and is equal to 1.5% per annum of the aggregate amount of net invested commitments that remain invested. This fee is deducted directly from the Fund bank account and is not negotiable.

The following chart summarizes the form of compensation to be received by LHCM:

Management Fees	1.5% of net invested commitments
Carried Interest	15% above an 8% hurdle
Reimbursement of Expenses	100%

The following chart summarizes those fees to be received by LendingHome when it originates Residential Bridge Loans purchased by the Fund. 100% of the fees are collected and earned by LendingHome either prior to the Fund’s purchase of the Loan or over the life of the Loan. Therefore, these fees are not included in the Fund’s gross income.

Origination Fees	Typically, 1.0 – 2.0% of total loan amount
Processing Fees	Ranges from \$200-\$1,000, covers third-party costs to originate.
Servicing Fees	Market Rate, typically 0.5% - 1.50% of unpaid principal balance
Late Penalty Fees	Typically, \$35-100, covers processing costs related to manual entries and bank redrafting fees.

Holdback Administration Fees	Typically, \$95-\$125, retained by Servicer to cover cost of inspection and rehab holdback disbursement to the borrower.
------------------------------	--

### ***Carried Interest***

The Fund pays a performance fee in the form of a carried interest. The carried interest is derived based on the Fund's net investment income and a promote hurdle. The amount is calculated when fund distributions occur, which occur no less than quarterly. LHCM receives the carried interest concurrently with the fund distributions. In the event the lifetime cumulative return is below the hurdle rate, LHCM will reimburse the Fund's General Partner.

### ***Miscellaneous Revenues:***

Fees ordinarily payable to the owner of an investment, such as break-up fees, are paid to the General Partner (or its affiliates) and not to the Fund. Any such amounts are for the benefit of the Fund and will be applied by the General Partner to offset the Management Fee payable by the Fund, with any balance distributed in accordance with the distribution procedures outlined in the Fund's PPM.

### ***Organizational and Offering Expenses:***

The Fund bears all the legal, travel, accounting, other professional, printing, filing, formation and other organizational expenses incurred in forming the Fund and offering the limited partnership interests therein and related entities (such as the General Partner and the Feeder) and obtaining commitments from the Partners ("Organizational Expenses"). The Management Fee is reduced by (a) all amounts paid by the Fund to any placement agent or financial advisor relating to the formation of the Fund and (b) Organizational Expenses paid by the Fund in excess of \$1.5 million.

### ***Operating Expenses:***

The Fund pays all costs and expenses relating to its operations, including, but not limited to: (a) legal, auditing, consulting, technological, third-party administration and accounting fees and expenses (including costs of reports to the Partners, financial statements, tax returns, K-1s, data services, and financial modeling software and services); (b) expenses of any meetings of the Advisory Committee and of Limited Partners; (c) all expenses associated with the consideration, acquisition, servicing, holding and disposition of its proposed or actual investments, including, without limitation, any and all costs associated with Alternative Investment Vehicles and any holding vehicles, insurance, indemnification, travel, entertainment, custodian and other

unreimbursed expenses, brokerage fees and commissions and administrative fees related to underwriting and processing individual transactions; (d) all extraordinary expenses (such as litigation), officer liability and similar insurance and indemnification expenses; (e) administrative costs and expenses relating to the operation of the Fund, including, without limitation, filing fees and legal or regulatory compliance expenses; (f) interest on and fees and expenses arising out of all permitted borrowings made by the Fund, including financings and refinancings of the Fund's investments; (g) all third party expenses relating to unconsummated transactions; (h) all expenses of liquidating the Fund; (i) any taxes, fees or other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fund; and (j) all expenses associated with due diligence of its proposed or actual investments, including travel and expenses for site visits. LHCM is responsible for its own operations, including rent, salary, furniture and fixtures and office equipment.

### ***Conflicts of Interest***

The Fund is subject to various conflicts of interest arising out of its relationship with LendingHome and LHCM. None of the agreements and arrangements between LendingHome, the Fund, and LHCM, including those relating to compensation, resulted from arm's-length negotiations. These conflicts of interest include, but are not limited to, the following:

- Receipt of Management Fees: LendingHome is an affiliate of LHCM and will be paid the Management Fee. Such Management Fee is intended to compensate LendingHome for its services and was not negotiated at an arm's-length basis. However, since absent the existence of a Management Fee, Partners might receive a higher rate of return, the interests of LendingHome and the Limited Partners are adverse in this respect.
- Receipt of Incentive Fees: Since LHCM shall receive additional compensation once the Limited Partners have received their return of capital and preferred return, as described in the Fund's PPM, LHCM may have incentive to invest in riskier opportunities that it might believe would produce a greater return, a portion of which LHCM would keep. Since this potential additional return might result in additional risk and exposure, the interests of LHCM and the Fund may be adverse in this respect.
- Receipt of Borrower Fees: LendingHome will retain any loan origination fees collected from borrowers. LendingHome will retain 100% of any late fees and split equally extension fees received from borrowers. LHCM believes that the retention of these fees by LendingHome is necessary due to the costs and overhead necessary to LendingHome to effectively originate and/or acquire Fund assets in the first place. Since this potential additional return might result in additional risk and exposure, the interests of LHCM and investors may be adverse in this respect.

- Receipt of Servicing Fees: All Residential Bridge Loans will be initially serviced by LendingHome and transferred at LHCM's direction. LHCM has the right, in its sole discretion, to decide who will service the Residential Bridge Loans (the "Servicer"). In connection with the loan servicing functions rendered by the Servicer, the Fund will pay a servicing fee to the Servicer equal to the market rate ranging from 0.50% to 1.50% of the unpaid and outstanding balance of the Residential Bridge Loans acquired by the Fund per annum, plus related third-party expenses incurred by the Servicer. Since the servicing fees are based on the unpaid and outstanding balance of Residential Bridge Loans, the Servicer will receive fees only on Residential Bridge Loans that have not been paid off or refinanced. The investor's interest in the successful resolution of the Residential Bridge Loan, either through the sale or refinancing of the underlying residential real estate property, may be adverse to the Servicer's interest in obtaining servicing fees on Residential Bridge Loans with unpaid and outstanding balances.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The General Partner, an affiliate of LHCM, receives a performance fee from the Fund paid in the form of a carried interest. This fee and related conflicts of interest are described in detail in Item 5 of this brochure.

## **Item 7 – Types of Clients**

LHCM's clients consist of private funds that are pooled investment vehicles. The Fund is no longer accepting new investments.

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

LHCM's investment objective for the Fund is to generate high current income while also providing downside protection against potential declines in real estate value. To achieve its objectives, the Fund will engage in the business of making or acquiring Loans secured by real property located in the United States. The Loan's purpose may include acquisition, refinance, rehab/flip, construction, development, bridge financing and transactional funding. The majority of the Loans originated by the Fund will be primarily in the residential rehabilitation sector and made for the purpose of rehabilitating an existing real property and exited via property sale or refinance.



When considering the appropriateness of an investment for the Fund, LHCM evaluates each investment's contribution towards constructing a well-diversified portfolio that meets the Fund's objective. In making this determination, LHCM intends to follow a structured process based on the following criteria:

- Diversification Policy: Each asset should not be considered alone, but by the role it plays in a diversified portfolio. LHCM will consider the Fund's diversification policy which is constructed to avoid undue risk of large losses over the duration of the Fund. To protect the portfolio against unfavorable outcomes within a specific cohort due to assumption of large risks, LHCM will take reasonable precautions to seek to avoid excessive investment concentrations. Should the portfolio's actual investment allocation vary from the target allocation as result of payoffs or changes in origination trends, LHCM intends to rebalance its portfolio targets.
- Property Valuation: LHCM will review an appraisal report or broker-price opinion ("BPO") performed by an independent certified appraiser, which may include an on-site inspection of the property, assessment of property condition, commentary on the surrounding neighborhood, school districts, access to central business district and sales and listing comparables, among other factors. This report is also reviewed by LendingHome during the origination process and may be supplemented with commentary on rehab feasibility, market suitability and additional sales comparables. LendingHome may consider home prices projections as an indication of local market health but commonly ignores such projection in deriving the subject property's final value. The final memo prepared by LendingHome may recommend upward or downward revisions to the third-party report; however, LHCM reserves sole and ultimate discretion on value
- Geographic Concentration: LHCM will create geographic concentration limits based on an evaluation of local housing market fundamentals and review each investment's marginal contribution towards that limit. Geographic concentrations will be determined based on continual assessment of demographic and housing market indicators. Demographics indicators include average household income, population growth, educational attainment, crime levels and cost of homeownership. Housing market indicators include: days-on-market, inventory levels, change in list prices and one-year change in home prices and maximum.
- Median Home Value: LHCM intends to target investments that are between certain thresholds of the median zip code home value (for example no greater or less than 200% of median value). In general, LHCM has observed the highest level of market liquidity for properties that fall within the median value. As such, each investment will be reviewed against the zip code home value to ensure adequate market liquidity=

- Use of Loan Proceeds and Exit Strategy: LHCM will evaluate the use of loan proceeds to ensure the borrower has appropriately outlined a clarity of exit that is achievable over the term of the loan.
- Experience Verification: LHCM will review a report prepared by LendingHome that summarizes the borrower's prior real estate investing experience. LendingHome will authenticate the report by cross-checking a random sample of the experience against public record data. In general, borrowers with greater experience receive a more favorable, risk-adjusted rate; however, certain compensating factors, such as an experienced general contractor, are considered.
- Background and Credit Verification: LHCM will review credit profile reports checks on individual applicants and all guarantors of entity borrowers. Underwriters review reports for criminal history and prior derogatory events including liens, judgments, bankruptcy/foreclosure activity and prior mortgage late payments. Additionally, certain checks may automatically disqualify applicants while others may require additional compensating factors.
- Borrower Credit: LHCM will review credit profile reports checks on individual applicants and all guarantors of entity borrowers. Underwriters will review reports for criminal history and prior derogatory events including liens, judgments, bankruptcy/foreclosure activity and prior mortgage late payments. Additionally, certain checks may automatically disqualify applicants while others may require additional compensating factors.
- Borrower Concentration: LHCM will consider pre-existing portfolio exposure to a borrower and may decide to limit aggregate exposure in order to limit borrower concentration.

LHCM also consults, as needed with various third-party due diligence service providers with expertise in respect of the review and assessment of mortgages, including those of a similar type to the Loans.

LHCM is responsible for maintaining investment guidelines which are designed to set standards for overall portfolio composition. LHCM is also responsible for selecting, underwriting and arranging the Loans purchased or originated by the Fund but intends to delegate parts of the origination process to LendingHome.

LHCM also engages with LendingHome to perform any necessary default mitigation or special servicing. A Loan commonly enters into special servicing once a borrower has missed an interest payment but may also occur due to the property rehabilitation issues. The role of the special servicer is to initiate borrower contact, ascertain the reason for delinquency, and execute

on default resolution alternatives. Examples of alternatives include: reinstatements, loan modifications, deed-in-lieu of foreclosure, short sale or foreclosure. LHCM's goal with Non-Performing Loans is to maximize returns on net-present value basis as determined by the aggregate borrower exposure and not Loan-level. To assist LHCM, the special servicer may make resolution recommendations; however, LHCM reserves sole and final decision on the strategy.

### **Leverage**

LHCM has utilized prudent leverage to achieve the Fund's investment objective. At December 31, 2019, there is no leverage on the Fund. Given the Fund is now returning capital, the Fund does not intend to use leverage. *There is no guarantee that the use of leverage will protect the Fund against loss.*

### **Risk of Loss:**

Investing in the Fund is speculative and involves a high degree of risk. No guarantee or representation is made that the Fund will achieve its investment objectives or that an investor in the Fund will receive a return of its capital.

### **Risks Relating to the Fund's Investments (Generally):**

Real estate historically has experienced significant fluctuations and cycles in value. If the borrowers in respect of the Residential Bridge Loans do not make sufficient returns on the sale or refinancing of the real properties that underlie those loans, the Fund's investment in such a Residential Bridge Loan and its ability to make distributions to its Partners may be adversely affected. The factors affecting the values of such real properties include, without limitation, any combination of the following:

- changes in supply of and demand for competing properties in an area (including the consequences of overbuilding);
- changes in general demographic factors;
- decreases in consumer confidence;
- changes in the prices for key commodities or products;
- changes in real property tax rates;
- changes in interest rates and the availability of mortgage funds (including changes that may render the sale or refinancing of properties difficult or impracticable);
- changes in consumer tastes and preferences, including the effects of adverse publicity;

- changes in building, environmental and other laws or government regulations; and/or
- national, regional or local economic conditions (including plant closings, military base closings, industry slowdowns, unemployment rates and national disasters, such as the Covid-19 pandemic).

Furthermore, as per the last point above, the risks associated with investing in real estate are likely to be more severe during periods of economic slowdown or recession, especially if such periods are accompanied by declining real estate values. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect the income received by the Fund from its investments, which would reduce the amounts it has available for distribution. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines.

If real estate values decline, regardless of the reason, investments in Residential Bridge Loans will also be adversely affected. Residential Bridge Loans may become non-performing for a wide variety of reasons and may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such Residential Bridge Loan, replacement “take-out” financing will not be available, which could ultimately impact the value of the Fund's investment.

### **Risks Associated with Investments in Bridge Loans**

Residential Bridge Loans have certain distinct risk characteristics. Residential Bridge Loans are used for a business purpose, namely, for the purchase and rehabilitation of an investor property prior to sale and therefore tend to have shorter maturities than typical residential mortgage loans. An investor property is a property which, at the time of origination, the mortgagor represented would not be used as the mortgagor's primary residence or second home. Because the mortgagor is not living on the property, the mortgagor may be more likely to default on the mortgage loan than on a comparable mortgage loan secured by a primary residence, or to a lesser extent, a second home.

The Residential Bridge Loans originated or acquired by the Fund will be “non-conforming” in that they do not need to conform to the maximum mortgage loan amounts and the underwriting guidelines of Fannie Mae and Freddie Mac, particularly with respect to the credit history of the borrower, waiting periods following certain bankruptcy and derogatory credit events and debt-to-income ratio requirements. These nonconforming mortgage loans do not conform to, and are not insurable by, the Federal Housing Administration and are ineligible to be guaranteed by the Department of Veterans Affairs. Furthermore, certain federal and state consumer protection

laws, such as the Federal Truth-in-Lending Act and Regulation Z, place restrictions on creditors in connection with the extension of credit and collections on consumer loans and protection of sensitive consumer data obtained in the origination and servicing thereof are not applicable to Residential Bridge Loans the Fund will invest in. Due to this relatively lesser regulatory oversight, the Residential Bridge Loans the Fund invests in may be riskier obligations and may incur delinquencies and defaults at rates exceeding similar mortgage loans that are subject to these laws and regulations.

Residential Bridge Loans are also generally not fully amortizing, which means that they may have a significant principal balance or “balloon” payment due on maturity. Residential Bridge Loans generally are non-recourse to borrowers. In the event of foreclosure on a residential property securing a Residential Bridge Loan, the value of the residential property at that time may be less than the principal amount outstanding on the Residential Bridge Loan and the accrued but unpaid interest thereon. Various types of residential real estate properties will secure the Fund's investments and the property values for such properties are generally subject to the following factors (in addition to the general factors affecting all real estate investments):

- the age, design and construction quality of the property;
- perceptions regarding the safety, convenience and attractiveness of the property;
- the proximity and attractiveness of competing properties;
- the adequacy and effectiveness of the property's operations, management and maintenance;
- increases in operating expenses (including but not limited to insurance premiums) at the property and in relation to competing properties; and
- capital expenditures needed to maintain the property or make improvements.

If the debt service associated with a residential bridge loan is scheduled to increase during the term of a loan pursuant to an increase in the mortgage interest rate, the expiration of an interest-only period or otherwise, there can be no assurance that the sale or refinance of the residential property will be sufficient to pay the additional debt.

### **Delay in Receipt of Liquidation Proceeds; Liquidation Proceeds May Be Less Than the Unpaid Principal Balance of a Mortgage Loan**

Every state has its own foreclosure process; particularly in states where the process is judicial rather than non-judicial, delays may be lengthy. Mortgagors may take steps to delay the foreclosure process. Many states have laws protecting the rights of tenants or other occupants of the mortgaged properties; these laws may delay liquidation of the mortgaged property underlying the portfolio loans following a foreclosure. If a mortgaged property fails to provide adequate security for the related portfolio loan and the related liquidation expenses, the Fund will incur a loss on its investment.

### **Risks Relating to the Outbreak of Disease or Similar Public Health Threat:**

An outbreak of disease or similar public health threat (including the global coronavirus outbreak), or fear of such an event, could have a material adverse impact on the Fund's performance. There is significant uncertainty around the duration, breadth and severity of business disruptions related to COVID-19, as well as its impact on the global and U.S. economy and the real estate market generally. The extent to which COVID-19 impacts the Fund's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. We are also unable to predict the outcome or effect of national, state or local legislation that attempts to address the economic effects of COVID-19 on the Fund.

## **Item 9 – Disciplinary Information**

There have been no disciplinary actions taken LHCM or any members of its management team.

## **Item 10 – Other Financial Industry Activities and Affiliations**

- A. The Firm is not registered nor plans to register as a broker-dealer and does not have any management persons who are registered representatives of a broker-dealer.
- B. The Firm is not registered nor plans to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, and does not have any personnel who are associated persons of the foregoing entities.
- C. The Firm or its management persons do not have any relationship or arrangement that is material to the Firm's advisory business or its clients with any registered entity that is related to it.
- D. The Firm does not recommend or select other investment advisers for its clients and does not receive compensation directly or indirectly from any investment advisers.

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

LHCM has adopted a Code of Ethics pursuant to SEC rule 204A-1 for all employees of the Firm. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees at LHCM must acknowledge in writing the terms of the Code of Ethics annually, or as amended. LHCM will provide a copy of the Code of Ethics to any client or prospective client upon request.

## Potential Conflicts of Interest

### *General Categories of Conflicts*

Investors should be aware that there will be occasions when the General Partner and its affiliates may encounter potential conflicts of interest in connection with the Fund's activities. On any issue involving conflicts of interest, the General Partner and LHCM will be guided by their good faith judgment and seek the prior, written approval of the Advisory Committee as needed. If any matter arises that the General Partner determines in its good faith judgment constitutes an actual conflict of interest, the General Partner may take such actions as may be necessary or appropriate to ameliorate the conflict (and upon taking such actions the General Partner will be relieved of any responsibility for such conflict). Any transaction that may present a conflict of interest shall be handled in a manner complying with the Advisers Act and Section 206 thereof. The following discussion enumerates certain potential conflicts of interest, which should be carefully evaluated before making an investment in the Fund.

### *Allocation of Investment Opportunities*

LHCM and its affiliates source investments to other clients and reserve the right to continue to do so. Any investment opportunity sourced by LHCM or its affiliates that meets the investment criteria of the Fund, does not violate the Fund's investment or debt restrictions and for which the Fund has adequate resources will be offered to the Fund and any other client of LHCM and its affiliates then seeking to make investments based on LHCM's investment allocation policy.

### *Allocation of Personnel*

The General Partner and Investment Committee will allocate such time and attention as is deemed appropriate and necessary to carry out the operations of the Fund effectively.

LendingHome's personnel associated with the Fund may work on other projects and on behalf of clients other than the Fund; conflicts may, therefore, arise in the allocation of certain personnel and other resources.

In addition, certain members of the Investment Committee contemplate serving in similar roles for existing and future clients, who may wish to invest in opportunities comparable to those in which the Fund may invest. The investment professionals on the Investment Committee may experience diversions of their attention and potential conflicts of interest in the event that the interests of the Fund run counter to the interests of similar clients.

### *Affiliates of the General Partner*

The Fund has no employees and will rely on LHCM for the day-to-day administration and operation of the Fund and the management of the investments. Certain services may be provided to the Fund by the General Partner or affiliates of the General Partner. The General Partner will

endeavor to ensure that the terms and conditions of such service will be as, if not more, favorable than the terms and conditions that would be arrived at through arm's-length negotiations if the services covered were to be obtained from one or more independent third parties.

In addition to the Management Fee and investment returns generated by the Fund, LendingHome may realize other benefits from the operation of the Fund, such as gaining access to certain sponsors and investment opportunities and other relationships that may provide economic benefits to LendingHome and its affiliates but not the Fund.

#### *Carried Interest Distributions*

The existence of the General Partner's carried interest may create an incentive for the General Partner to make investments on the Fund's behalf that are risky or more speculative than would be the case in the absence of such performance-based compensation arrangement. In addition, in evaluating investments and other management strategies, the opportunity to earn incentive compensation based on the Fund's returns may lead the General Partner to place undue emphasis on the maximization of returns at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of the Fund's invested portfolio.

Upon a withdrawal of a Limited Partner from the Fund (in limited circumstances) and upon the liquidation of the Fund, the General Partner may receive Carried Interest Distributions with respect to a distribution in-kind of nonmarketable securities. The amount of any such distribution will be accounted for at the fair market value of such assets, with certain limited exceptions, as determined by the General Partner in accordance with procedures set forth in the Partnership Agreements.

#### *Diverse Limited Partner Group*

The Limited Partners may have conflicting investment, tax and other interests with respect to their investments in the Fund. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of investments made by the Fund, the structuring or the acquisition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner or LHCM, including with respect to the nature or structuring of investments, which may be more beneficial for one Limited Partner than for another Limited Partner, especially with respect to Limited Partners' individual tax situations. In selecting and structuring investments appropriate for the Fund, the General Partner and LHCM will consider the investment and tax objectives of the Fund and its Partners as a whole, not the investment, tax or other objectives of any Limited Partner individually.

#### *Side letters*



The General Partner, on behalf of the Fund, may from time to time enter into letter agreements or other similar arrangements (collectively, “Side Letters”) with one or more Limited Partners that have the effect of establishing rights under, or altering or supplementing the terms of the Partnership Agreements or any subscription agreement. As a result of such Side Letters, certain Limited Partners may receive additional benefits that other Limited Partners will not receive. The General Partner on behalf of the Fund will not be required to notify any or all the other Limited Partners of any such Side Letters or any of the rights or terms or provisions thereof, nor will the General Partner be required to offer such additional or different rights or terms to any or all the other Limited Partners absent an agreement to do so. The General Partner, on behalf of the Fund, may enter into such Side Letters with any Limited Partner as the General Partner may determine in its sole and absolute discretion at any time. The other Limited Partners will have no recourse against the Fund or any of its affiliates if certain Limited Partners receive additional or different rights or terms as a result of such Side Letters.

#### *Legal Representation*

Clifford Chance US LLP is acting as U.S. legal counsel to the Fund, the General Partner and LendingHome in connection with matters relating to the Fund. Clifford Chance US LLP is not acting as legal counsel for any Limited Partner or potential investor and such persons are advised to retain and consult with their own legal counsel.

#### *Principal Transactions*

An Affiliate of LHCM originated and sold to the Fund all the assets acquired by the Fund. LHCM effected these acquisitions in accordance with the Advisers Act, the Partnership Agreements and the Private Placement Memorandum. On July 11, 2019, the limited partners of the Fund agreed to permit an early termination of the Fund’s loan purchase commitments to an Affiliate of LHCM, effective after the June 2019 loan purchase commitment. After that date, the Fund did not acquire any additional assets.

Beginning in June 2019 the Fund began to effect the return of Capital Contributions to the limited partners.

The limited partners who invest in the Fund may also separately purchase whole loans from LHFC, an affiliate of LHCM, or may have purchased borrower-dependent notes from LendingHome Marketplace, LLC, an affiliate of LHCM. As of September 30, 2019, LendingHome Marketplace, LLC made a decision to no longer list new Borrower Payment Dependent Notes (BDNs) for investment.

The Fund’s purchase of whole loans from LHFC may have reduced or impaired the selection of whole loans and borrower-dependent notes available for sale to such investors.

To address these conflicts of interest, LHFC has implemented an allocation policy which describes the process by which LHFC will allocate loans between the Fund and other sales channels. The allocation policy is solely within LHFC's discretion, subject to investor stipulations, and may be updated, again, at LHFC's discretion, from time to time. Investors had the opportunity to review this policy prior to their investment in the Fund.

- B. Please see the responses to Items 11 A and B above.
- C. Please see the responses to Items 11 A and B above.

## **Item 12 – Brokerage Practices**

Due to the nature of the Firm's investments, LHCM does not engage in brokerage transactions or Soft Dollar Benefit programs.

## **Item 13 – Review of Accounts**

LHCM's principals supervise the Fund continuously. The Fund's investments are also formally reviewed on a quarterly basis. LHCM will (i) review the financial performance of the Fund's assets at least quarterly, (ii) engage and manage an auditor for the Fund and furnish the Fund with the quarterly and annual reports required to be furnished to the Limited Partner pursuant to the Partnership Agreements and (iii) assist, as required, the General Partner in determining the value of other aspects of the Assets.

## **Item 14 – Client Referrals and Other Compensation**

- A. The Firm does not have any third parties who provide investment advice or other advisory services to its clients.
- B. The Firm and its related persons do not directly or indirectly compensate any person who is not a supervised person for client referrals.

## **Item 15 – Custody**

To the extent consistent with applicable law, LHCM and its Affiliates shall have authority to maintain custody and possession of such of the assets of the Fund, including custody of any instruments evidencing the ownership of the Assets, such as purchase and sale agreements,

options, trust agreements, assignments, easements, pleadings, purchase money notes, mortgages and other similar security documents. Any such Assets shall be held on trust for the Fund Entities. If the Fund Entities have appointed a custodian (the "**Custodian**") to hold certain of the Fund Entities' Assets, the Custodian shall furnish to the Investment Manager and the Fund Entities, and the Investment Manager shall furnish to the Custodian, such reports concerning receipts and disbursements with respect to the Fund Entities' Assets as the other shall reasonably request.

Affiliates of LHCM or their agents may receive any mortgage or other payment normally incident to the day to day management of the Fund assets and pay expenses normally incident to the day to day management of the Fund assets (including any fees and expenses payable to the Investment Manager or its Affiliates under this Agreement). LHCM and its Affiliates may establish bank and securities accounts in the name of the Fund or, if a Custodian is appointed, the Custodian (or its nominee) may hold such payments, including amounts retained as operating reserves.

LHCM does not directly hold client funds or securities. However, as a result of our ability to control and liquidate assets within the Fund accounts, we are deemed to have custody of client assets.

Rule 206(4) – 2 of the Investment Advisers Act (known as the “Custody Rule”) requires advisers with custody to maintain client funds and securities with "qualified custodians." Qualified custodians include banks, registered broker-dealers, and certain foreign custodians. Qualified custodians are generally required to provide at least quarterly account statements directly to the adviser's clients. LHCM maintains client funds at qualified custodians, namely Wells Fargo, First Republic and US Bank; however, as an advisor to a pooled investment vehicle (PIV) that meets certain requirements (defined below), we are exempted (under the Custody Rule) from the requirement to have the qualified custodian deliver account statements directly to our clients. Additionally, under Rule 206(4)-2, a surprise examination is required for advisors who have custody of investor funds. An exemption to this requirement exists for certain advisers to PIVs. To use these exemptions related to PIVs, the PIV must be subject to an annual financial statement audit by a PCAOB (Public Company Accounting Oversight Board) registered and inspected accountant; and audited financial statements of the PIV must be distributed to the pool's investors within 120 days of the Fund's fiscal year end (or 180 days in the case of fund of funds).

LHCM meets the requirements for these exemptions in that has engaged an accounting firm to conduct an annual financial statement audit annually and as such, relies on these exemptions. The Fund is subject to an annual audit, and audited financial statements are distributed to each Fund investor. In addition, the Custody Rule does not require private fund advisers that rely on the Annual Audit Approach to custody certain privately offered securities with a qualified custodian so long as such securities are (i) acquired from the issuer in a transaction not involving

any public offering, (ii) *uncertificated (with ownership recorded only on the books of the issuer or its transfer agent in the name of the client)*, and (iii) transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer (the Private Security Exemption). The securities in the Fund meet all three of the above requirements.

### **Item 16 – Investment Discretion**

LHCM has full discretion to manage the assets of the Fund pursuant to the Grant of Authority in the Investment Management Agreement with the Fund and according to the investment objectives of the Fund.

### **Item 17 – Voting Client Securities (*i.e.*, Proxy Voting)**

LHCM does not vote client securities. Due to the nature of our investments, there are no proxies to be voted.

### **Item 18 – Financial Information**

LHCM has no financial or operating conditions which trigger additional financial information reporting requirements.

### **Item 19 – Requirements for State-Registered Advisers**

As an SEC-registered firm, this Item is not applicable.