

Form ADV Part 2A: Firm Brochure

Harbor Group International, LLC

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

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

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

Item 2: Material Changes

This brochure has been updated from the last firm brochure dated March 2019 to include certain routine updates and other changes including, but not limited to, new risk factors, and additional conflicts of interest. In addition, Harbor Group International, LLC routinely makes updates throughout the brochure to improve and clarify the description of its business practices, compliance policies and procedures, as well as to respond to evolving industry best practices.

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Item 4: Advisory Business

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

The HGI real estate management and investment platform launched in the mid-1980s and the name Harbor Group International, LLC was adopted in 1998. Through a series of joint ventures and recapitalizations, the business evolved and is now a Delaware limited liability company which was formed in 2007 and is wholly owned by HGI Holdings, LLC. HGGP Capital IX was formed in 2013, HGGP Capital X was formed in 2015, HGGP Capital XI was formed in 2016, HGGP Capital XII was formed in 2017, HGGP Capital XIII was formed in 2018, and HGGP Capital XIV was formed in 2019. Jordan E. Slone owns 25% or more of each of HGI Holdings, LLC, HGGP Capital X, HGGP Capital XI, HGGP Capital XII, HGGP Capital XIII and HGGP Capital XIV.

HGI provides discretionary advisory services to related privately-offered pooled investment vehicles (collectively, the “Funds”) that invest in real estate properties and real estate related financial instruments (including debt and preferred equity investments backed by real estate properties and real estate related structured debt investments). The Funds are typically structured as limited partnerships and limited liability companies that are exempt from registration as investment companies under U.S. law by virtue of Section 3(c)(1), Section 3(c)(5) and/or Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). In addition, as of the date of this brochure, HGI intends to pursue and advise separate accounts in the future (each, an “Account” and the clients for whom such Accounts are maintained, “Separate Account Clients”). The Funds and the Accounts are referred to herein as the “Clients”. HGI also provides investment advice to privately-offered pooled investment vehicles that hold only real estate (the “Real Estate Accounts”). Because the Real Estate Accounts do not hold securities, HGI is not subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) with respect to the Real Estate Accounts and only complies with the Advisers Act with respect to the Clients.

In providing services to the Clients, HGI formulates each Client’s investment objectives, directs and manages the investment of each Client’s assets. With respect to the Funds, investment advice is provided directly to the Funds and not individually to the limited partners or members of the

Funds (the “Investors”). HGI manages the assets of the Clients in accordance with the terms of each Client’s applicable confidential offering and/or private placement memorandum, individual limited partnership or operating agreement, investment advisory or management agreement, side letter agreements negotiated with Investors in an applicable Fund and other governing documents applicable to a Client (the “Governing Client Documents”). With respect to a Fund, all terms are generally established at the time of the formation of a Fund, and are only terminable once the applicable Fund is dissolved. With respect to an Account, all terms will be generally established at the time the investment advisory or management agreement is entered into with each Separate Account Client are expected to be terminable upon the termination of the applicable agreement.

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

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

As of December 31, 2019, HGI and its affiliates managed on a discretionary and non-discretionary basis approximately \$10.1 billion in assets consisting of real estate related investments held for investment purposes.^[1] Of this amount, HGI had approximately \$1.0 billion (inclusive of HGGP Capital IX, HGGP Capital X, HGGP Capital XI, HGGP Capital XII, HGGP Capital XIII, and HGGP Capital XIV) in assets under management on behalf of the Clients, all of which are managed on a discretionary basis.

Item 5: Fees and Compensation

Manager’s Interest; Carried Interest.

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

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

Real Property Related Fees.

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

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

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

Refinancing Fees. In connection with any refinancing of the debt securing any HGI controlled real property, a refinancing fee of up to 1.0% of the amount of the new loan proceeds typically is paid to HGI in cash at the closing of such refinancing. The refinancing fee is paid for the services of identifying a mortgage lender, negotiating financing terms, negotiating loan documents and

working with legal counsel and other third parties to close the refinancing. HGI determines the amount of a refinancing fee based upon various factors in its sole discretion, including, without limitation, the complexity and size of the transaction and overall financial performance of the applicable property.

Disposition Fees. In connection with any sale of an HGI controlled real property investment, a disposition fee equal to a percentage up to 1.0% of the aggregate purchase price of the property typically is paid to HGI in cash at the closing of such sale. The disposition fee is paid for the services of selecting a broker to market the property, working with the broker on the preparation of investment sales materials, working with onsite staff at the property during due diligence by potential buyers, reviewing purchase offers, negotiating purchase contracts and working with legal counsel and other third parties to close the disposition. HGI determines the amount of a disposition fee based upon various factors in its sole discretion, including, without limitation, the complexity and size of the transaction and overall financial performance of the applicable property.

Property Management Fees. An HGI affiliate or a third-party non-affiliated professional property management firm is typically engaged to provide property management services, including the management, operation and maintenance of a property. Property managers are typically paid an annual property management fee of up to 3.75% of the annual gross revenues generated by the property for the management, operation and maintenance of a property. The property manager is also typically paid a wind down fee upon disposition of the property which is generally equal to a multiple of the average amount of the property management fees paid for the trailing three month period ending immediately prior to the closing of the disposition. Additionally, the property manager will be reimbursed for certain property-related expenses and costs, including the salaries and travel expenses of certain employees of the property manager including all onsite personnel, which may be substantial.

Construction Management Fees for Real Property Investments. An HGI affiliate or a third party non-affiliated professional construction management firm is typically engaged to provide construction management services, including the development of capital budgets and a capital improvement timeline with respect to a property, negotiating and executing contracts with design professionals and other third party vendors, and engaging in project and risk management. In exchange for such construction services, the construction manager will typically be paid a fee equal to a percentage (generally 4%) of the total capital expenditures deployed. In the event there is a material capital expenditure budget, an HGI affiliate may charge an additional \$10,000 related to travel for construction management staff. HGI determines the amount of a construction management fee based upon various factors in its sole discretion, including, without limitation, the complexity and size of the capital improvement of the applicable property.

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

leveraging properties, while the Separate Account Clients and the Funds' Investors may be better served by disposing of a property or holding a property on an unleveraged basis.

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

Property and Investment Expenses. HGI and its affiliates (including the General Partner of the Clients and managers of investment vehicles and property owners) will have the authority to engage qualified service providers, which frequently include the foregoing parties and personnel of such parties, to provide certain services which are appropriate to a Client, a property or property owner, investment vehicle or in connection with a direct investment to provide certain services, including without limitation, those provided for or related to lease brokerage, sustainability, marketing, legal, business development, training, start-up, environmental, entitlement and zoning, structuring (including, without limitation, structuring a tenancy in common structure for a transaction that includes a 1031 tax deferred exchange), appraisal, title and related insurance services, surveys, security, engineering, debt-related services, hedging, custodial and depository services, maintenance (including, without limitation, tenant relations, technology installation, vendor administration and site inspections), other property-related matters (including licensing, qualification, reporting, auditing and filing), audits, operation standard services (including support for audits of property operations for conformance to procedures), tax preparation, financial, consulting, filing and appeal services and other tax related services, regulatory compliance and structuring, financial and other reporting, accounting, administrative services, technical and safety services and any other services provided by service providers.

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

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

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

Mezzanine / Preferred Equity / Structured Debt Investments Related Fees.

HGI receives an investment fee at closing typically up to 5% of the equity deployed to a specific investment by certain Clients and an ongoing annual asset management fee generally in the range of 0.75% - 1.5% of the then outstanding equity invested by such Clients. In the case of structured debt investments, including those purchased at a discount to par, investment fees are calculated on the par balance of the loan or loan pool when purchased; annual asset management fees are calculated on the par balance of the loan or loan pool outstanding at any time. These asset management fees are payable for HGI's services in connection with sourcing the investment and negotiating investment terms, performing due diligence, negotiating legal documents, and working with legal counsel and other third parties to close the investment. In addition, following closing, HGI will monitor financial performance of the underlying investments on a monthly basis and conduct such ongoing property visits and communications with property owners as HGI deems are necessary. In the event a property owner defaults under its contractual obligations to HGI, or its obligations under a loan in a structured debt investment, then HGI will also act on behalf of a Separate Account Client or a Fund's Investors to exercise such rights and remedies and take such other actions as HGI deems prudent under the circumstances.

Additional Fees.

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

Other Fees and Expenses.

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

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

Additionally, Investors, by virtue of passive investment in HGI and/or its affiliates, may be entitled to receive a portion of some or all of the various fees received by HGI.

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

The Clients generally will also be required to bear a portion of any costs and expenses of investments made by the Clients, including organizational and legal costs associated with the formation of property owner entities and closing costs for such investments, including, without limitation, the fees, costs and expenses of lawyers, accountants, and other professionals incurred in connection with audits, data processing, tax returns, tax planning, tax projections, investment-level management and servicing, hedging, environmental, legal, compliance, structuring, financial reporting services, legal opinions and tax return preparation and similar services, other legal and accounting expenses, filing fees and expenses, and printing and mailing costs, travel, meals, as well as expenses associated with the distribution of reports and notices to the investors and/or the expenses of any investor portals.

Each Fund will pay all of the costs and expenses of the Fund, its General Partner, and Manager in connection with its offering, including the Fund's, General Partner's and Manager's initial organizational expenses, as well as the General Partner's normal day-to-day operating expenses associated with its day-to-day oversight of the Fund and the preparation of regular accounting and investor reports. In addition, each Fund will bear all of the day-to-day operating expenses of the Fund, General Partner and Manager, including but not limited to all legal, audit and accounting costs incurred in the ordinary course of the Fund's investments, costs incurred in connection with the preparation of the Fund's, General Partner's, or Manager's tax returns and the preparation and distribution of K-1s to the Fund's limited partners and the ongoing expenses of complying with any tax and regulatory obligations to which the Fund, General Partner, or Manager is subject and maintaining each entity's partnership or limited liability company status, as the case may be, including the preparation and filing of all periodic reports required under applicable law. To the extent any operating expenses of the Fund, General Partner, or Manager are paid by HGI, the General Partner or any of their respective affiliates on behalf of the Fund, General Partner, or Manager, such operating expenses shall be promptly reimbursed by the Fund.

In addition, the following fees, costs and expenses, without limitation, are routinely incurred and are payable in whole or in part by the Clients investing in a portfolio investment:

- technology-related fees and expenses (including, without limitation, technology installation costs for reporting systems and online leasing and renewal capabilities, lead management systems, human resources management systems, technology infrastructure improvements, IT strategic costs and other IT related projects);
- any taxes, fees or other governmental charges levied against the portfolio investments and all costs and expenses incurred in connection with any tax audit, investigation, settlement

or review of the portfolio investments (including, without limitation, fees and expenses of auditors, counsel and other advisors of the portfolio investments);

- costs and expenses associated with meetings of property managers and other property personnel (including travel and meals for such persons) for training and team building purposes;
- all of the premiums of any director and officer liability or other applicable insurance and extraordinary administrative or operating fees or expenses (including, without limitation, all litigation-related and indemnification expenses), including insurance of which any portfolio investments and/or their affiliates are beneficiaries; and
- lease and tenant related matters, including leasing commissions, tenant improvements, tenant concessions, and tenant retention expenses.

From time to time, the General Partner or Manager of a Fund may create certain “special purpose vehicles” or similar structuring vehicles for purposes of accommodating certain tax, legal and regulatory considerations of Investors (“SPVs”). In the event an SPV is created, consistent with the Governing Client Documents of the applicable Fund, the expenses related to its organization and formation and other expenses incurred solely for the benefit of the SPV will typically be borne by the SPV, and indirectly, the investors thereof. In addition, expenses of the type borne by a Fund but associated with any feeder fund or similar vehicle organized to facilitate the participation of certain investors in the Fund (including, without limitation, expenses of accounting and tax services) may be borne by the Fund and indirectly, the investors thereof (even if such investors do not participate in any such feeder fund or similar vehicle).

Allocation of Expenses.

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

To the extent not allocated to an investment, HGI will allocate fees and expenses incurred in the course of evaluating and making investments that are consummated between Clients in accordance with each Client’s Governing Client Documents or, to the extent not addressed in such Governing Client Documents, pro rata based on the respective total capital commitments of such Clients. HGI will make any corrective allocations and take any mitigating steps if it determines in its sole discretion that such corrections are necessary or advisable. Notwithstanding the foregoing, the portion of an expense allocated to a Client for a particular service may not reflect the relative benefit derived by such Client from that service in any particular instance.

Brokerage Fees.

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

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

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

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

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

Item 7: Types of Clients

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

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. All Investors in a Fund must represent in writing that they are "accredited investors" (as defined in Rule 501 of Regulation D, adopted under the Securities Act),

and in certain Funds “qualified purchasers” (as defined in the 1940 Act) and “qualified clients” (within the meaning of Rule 205-3(d)(1) under the Advisers Act.

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

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

Methods of Analysis and Investment Strategy Generally

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

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

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

Summary of Material Risks

The following is not a complete list of all relevant risks associated with Clients investment strategies. Clients and prospective investors should carefully review the risks included in the Governing Client Documents of a Client and should also consult with their legal, tax and investment advisors before determining to make any investment in the Clients.

Risks Inherent in Real Estate. The Clients’ success will be dependent on HGI’s ability to invest in financially successful real estate properties and other real estate related financial investments. Thus, an investment in the Clients will be subject to all of the risks inherent to real estate investments, such as:

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

If the investments do not generate revenues sufficient to meet operating expenses, including debt service, tenant improvements, leasing commissions and other capital expenditures, the Clients may be required to borrow additional amounts to cover fixed costs, and the cash flow of a Client and its ability to make distributions to its limited partners will be adversely affected. Although the Client will be investing in a range of investments, all real estate investments are speculative in nature and the possibility of partial or total loss of capital exists. Investors should not subscribe to or invest in the Clients unless they can readily bear the consequences of such loss.

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

- Changes in general economic or local conditions;
- Changes in supply of or demand for similar or competing properties in an area;
- Volatility in the capital markets, including changes in interest rates and availability of capital (including permanent mortgage funds) which may render the sale of a property difficult or unattractive;
- Changes in tax, real estate, environmental or zoning laws;
- Periods of high interest rates and tight money supply which may make the sale of properties more difficult;
- Natural disasters, acts of war and terrorism, and similar events;
- Political or social instability or uncertainty;
- Perceptions of prospective tenants of the safety, convenience, location and attractiveness of the properties;
- The financial condition of tenants, buyers and sellers of property;
- Tenant turnover and the ability to collect rent from all tenants on a timely basis;
- The expense of periodically renovating, repairing and reletting spaces;
- The ability of the Clients to provide adequate management, maintenance and insurance;
- Uninsured losses or delays from casualties and condemnation;
- Structural or property-level latent defects;
- Increased operating costs (including real estate taxes and utilities) that may not be passed through to tenants;
- Compliance with applicable laws, including regarding zoning and usage;
- General overbuilding or excess supply in the market area;
- Act of God and other factors beyond the control of the Clients.

Certain significant expenditures associated with investments in real estate (such as mortgage payments, real estate taxes, insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in rental revenues from the property. Also, the amount of available rentable square feet of commercial property is often affected by market conditions and may, therefore, fluctuate over time. Investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property) could also create risks of successor liability.

Investments Will be Illiquid. The investments to be made by the Clients are illiquid. Illiquidity may result from the absence of an established market for the investments, adverse changes to market conditions and real estate values as well as legal, contractual or other restrictions on their resale by the Clients. Dispositions of investments may be subject to legal, contractual and other limitations on transfer (including pre-payment penalties) or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. The possibility of partial or total loss of capital will exist and Investors should not subscribe unless they can readily bear the consequences of such loss. Real estate investments are relatively illiquid. The ability of the Clients to vary their portfolio in response to changes in economic and other conditions will be limited. There can be no assurance that a Client will be able to dispose of an investment when it finds disposition advantageous or necessary or that the sale price of any disposition will recoup or exceed the amount of an investment by the Client.

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

Highly Competitive Market for Investment Opportunities. The business of identifying and structuring real estate investments is highly competitive and involves a high degree of uncertainty. The Clients compete for investments with other real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts, financial institutions and other institutional and governmental Investors, which may have greater financial and other resources. These competitors may have different investment objectives than the Clients, enabling them to accept more risk or pay higher prices than the General Partners deem reasonable or appropriate for their respective Clients. In addition, the availability of investment opportunities is subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

Leverage. The Clients may leverage their investments with debt financing in amounts which are significant relative to the costs of the investments. Incurring mortgage debt increases the risk of loss because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately a Client loss of properties securing any loans for which it is in default. A foreclosure could also cause a Client to recognize taxable income, even in the absence of any cash proceeds. In certain circumstances, financing may be recourse to the underlying Client, which may expose the Client to the loss of other assets not directly securing the loan.

Government Regulation. The real estate industry is extensively regulated and subject to frequent regulatory change. The adoption of new legislation or changes in existing laws or new

interpretations of existing laws can have a significant impact on methods of doing business, costs of doing business and amounts of reimbursement from governmental and other agencies.

Risks Relating to Tenants. HGI may not be able to attract credit-worthy tenants for their properties or replacement tenants at rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require capital improvements to properties which would not have otherwise been planned. Any unbudgeted capital improvements that are undertaken may divert cash from that which would otherwise be available for distributions to clients or may require unanticipated borrowings. Any defaults on lease payment obligations by a tenant will cause a Client to lose the revenue associated with the relevant lease. If such defaults become significant, the Client will be forced to use other funds to make payments on the mortgage indebtedness secured by the impacted property to avoid foreclosure. If a tenant defaults, the Client may experience delays in enforcing its rights as a landlord and may incur substantial costs in protecting its investments. In addition, if a tenant at a single-user facility, which has been designed or built primarily for a particular tenant or a specific type of use, fails to renew its lease or defaults on its lease obligations, the Client may not be able to readily market a single-user facility to a new tenant, if at all, without making substantial capital improvements or incurring other significant re-leasing costs. Further, the Client may enter into leases containing co-tenancy provisions. Co-tenancy provisions may allow a tenant to exercise certain rights if, among other things, another tenant fails to open for business, delays its opening or ceases to operate, or if a percentage of the property's gross leasable space or a particular portion of the property is not leased or subsequently becomes vacant. A tenant exercising co-tenancy rights may be able to abate minimum rent, reduce its share or the amount of its payments of common area operating expenses and property taxes or cancel its lease. Furthermore, at any time, a tenant may seek the protection of bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the distributable cash flow to clients.

Clients may not be able to Pass on Operating Expenses to Tenants. Operating expenses, such as expenses for property managers and other service providers, fuel, utilities, labor, building materials and insurance are not fixed and may increase in the future. There is no guarantee that a Client will be able to pass these expenses and increases on to its tenants. To the extent these expenses and increases cannot be passed on to the Client's tenants, any expenses and increases would cause the Client's cash flow and operating results to decrease.

Tenant Bankruptcy. HGI cannot provide assurance that any tenant that files for bankruptcy protection will continue to pay rent to the applicable Client. A bankruptcy filing by, or relating to, one of the Client's tenants or a lease guarantor would bar efforts by the Client to collect pre-bankruptcy debts from that tenant or lease guarantor, or its property, unless the Client receives an order permitting the Client to do so from the bankruptcy court. In addition, the Client cannot evict a tenant solely because of bankruptcy. The bankruptcy of a tenant or lease guarantor could delay efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to the Client in full. If, however, a lease is rejected by a tenant in bankruptcy, the Client would have only a general, unsecured claim for damages. An unsecured claim would only be paid to the extent that funds are available and only in the same percentage as is paid to all other holders of general, unsecured claims. Restrictions under the

bankruptcy laws further limit the amount of any other claims that the Client can make if a lease is rejected. As a result, it is likely that the Client would recover substantially less than the full value of the remaining rent during the term.

Bankruptcy Proceedings may have an Adverse Effect on Client Investments. There are a number of significant risks when holding loans or debt securities of debtors involved in bankruptcy proceedings. Many events in a bankruptcy are the product of contested matters and adversary proceedings that are beyond the control of the creditors. A bankruptcy filing may have adverse and permanent effects on a debtor. For instance, the debtor may lose its market position and key personnel and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the debtor may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Certain claims, such as claims for taxes, wages, employee and worker pensions and certain trade claims, may have priority by law over the claims of certain creditors. The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. A Client may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and it may be subject to various trading or confidentiality restrictions. If a General Partner concludes that a Fund's membership on a creditors' committee entails obligations or restrictions that conflict with the duties it owes to limited partners, or that otherwise outweigh the advantages of such membership, the Fund will not seek membership in, or will resign from, that committee. Because the Fund will indemnify the General Partner and any other person serving on a committee on behalf of the Fund for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Fund's investment in a reorganized debtor.

Property Taxes. The Clients are responsible for paying all real property taxes applicable to properties owned by them. The property taxes may increase or decrease as property tax rates change and as the properties are assessed or reassessed by taxing authorities. The Clients, however, may be unable to recoup such increased costs and substantial increases in expenses arising as a result of any such increased taxes, which could have a material adverse effect on the operations of the Fund.

Potential Uninsured Losses. The Clients generally intend to carry comprehensive liability, fire, flood (where appropriate), extended coverage and rental loss insurance with respect to its real properties with policy specifications and insured limits customarily carried for similar properties. There are, however, certain types of losses that may be either uninsurable or not economically insurable (for example, earthquake coverage). In the event of a catastrophic loss or natural disaster or other casualty to a property, a Client's insurance coverage may not be sufficient to cover the full current market value or replacement cost of its lost investment. In addition, inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents

encumbering the portfolio properties pledged as collateral for loans, and other factors also might make it economically impractical to use insurance proceeds to replace improvements on a property if it is damaged or destroyed. Should an uninsured loss or a loss in excess of insured limits occur, the Client could lose both its capital invested in a property, as well as the anticipated future revenue from such property, and would continue to be obligated on any mortgage indebtedness, loan guaranties or indemnitees or other obligations related to the property. Under such conditions, the insurance proceeds the Client receives may be inadequate to restore the Client's economic position on such property.

Contingent Liabilities upon Disposition of Investments. In connection with the disposition of an investment, a Client or Client subsidiary may be required to make representations about such investment. The Client or Client subsidiary also may be required to indemnify the purchaser of such investment to the extent that any such representations are inaccurate. These arrangements will generally result in the incurrence of contingent liabilities for which the General Partner may establish reserves or escrow accounts. Furthermore, under the Delaware Revised Uniform Limited Partnership Act and other applicable laws, each limited partner that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Client.

Potential Environmental Liabilities. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous substances at the disposal or treatment facility whether or not such facility is, or ever was, owned or operated by such person. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials ("ACMs") and mold, into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances, including ACMs and mold. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell such property or to borrow using such property as collateral, which could have an adverse effect on the return from such investment. A Client could also be held liable for any and all consequences arising out of past and future releases of, or exposure to, such hazardous or toxic substances or other environmental damage. As the owner of real properties, the Clients may be potentially liable for any such costs.

General Litigation Risk. In the ordinary course of its business, the Clients may be subject to litigation from time to time. The outcome of such proceedings may materially adversely affect the value of a Client and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Recent Financial Market Fluctuations. In recent years, U.S. and global financial markets and the broader current financial environment have been, and continue to be, characterized by uncertainty, volatility and instability. While the United States economy has experienced growth since “the Great Recession”, such growth has slowed relatively in the most recent period and could continue in the near future. These financial market fluctuations have the tendency to reduce the availability of attractive investment opportunities for the Clients and may affect the Clients’ ability to make investments and the value of the investments held by the Clients. Instability in the securities markets and economic conditions generally may also increase the risks inherent in the Clients’ investments. The public securities markets have seen increased volatility and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by the tightening of the credit markets and the ongoing financial turmoil. It is unclear what the repercussions of this market turmoil may be. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will, in the future, become more liquid than it is at present and it may well continue to be volatile for the foreseeable future. The ability to realize investments depends not only on portfolio investments and their historical results and prospects, but also on political, market and economic conditions at the time of such realizations. In the past, many private equity funds have looked to the public securities markets as a potential exit strategy and there can be no assurance, particularly given the recent volatility in the financial markets and a potential lack of investor appetite for new issues in the public securities markets, that Clients will be able to exit from their investments in portfolio investments by listing their shares on securities exchanges. The trading market, if any, for the securities of any portfolio investment may not be sufficiently liquid to enable a Client to sell these securities when HGI believes it is most advantageous to do so, or without adversely affecting the stock price. Continued or renewed volatility in the financial sector may have an adverse material effect on the ability of the Clients to buy, sell and partially dispose of their portfolio investment investments. The Clients may be adversely affected to the extent that they seek to dispose of any of their portfolio investments into an illiquid or volatile market, and a Client may find itself unable to dispose of investments at prices that HGI believes reflect the fair value of such investments. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted and there can be no assurances that conditions in the financial markets will not worsen or adversely affect one or more of a Client’s investments. Weakness in both the capital markets generally and the fundamental real estate markets could recur and have a negative impact on the performance of the Clients’ investments. Further, credit markets could experience significant contraction, deleveraging and reduced liquidity. These market conditions may impair borrowers’ ability to refinance or sell their properties, which may contribute to higher delinquency and default rates. Borrowers seeking to refinance borrowings due to expire may not be able to find available replacement loans at comparably low interest rates, if at all.

Market Disruption, Health Crisis, Terrorism and Geopolitical Risk. A Client is subject to the risk that war, terrorism, global health crises or similar pandemics, and other related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Client’s investments. War, terrorism and related geopolitical events, as well as global health

crises and similar pandemics have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Those events as well as other changes in world economic, political and health conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a Client's investments. At such times, a Client's exposure to a number of other risks described elsewhere in this section can increase.

Coronavirus Outbreak Risks. The recent global outbreak of the 2019 novel coronavirus ("COVID-19"), together with resulting voluntary and U.S. federal and state and non-U.S. governmental actions, including, without limitation, mandatory business closures, public gathering limitations, restrictions on travel and quarantines, has meaningfully disrupted the global economy and markets. Although the long-term economic fallout of COVID-19 is difficult to predict, it has and is expected to continue to have ongoing material adverse effects across many, if not all, aspects of the regional, national and global economy. In particular, the COVID-19 outbreak has already, and will continue to, adversely affect the Clients' investments and the industries in which they operate. Furthermore, HGI's ability to operate effectively, including the ability of its personnel or its service providers and other contractors to function, communicate and travel to the extent necessary to carry out the Clients' investment strategies and objectives and HGI's business and to satisfy its obligations to the Clients, their investors, and pursuant to applicable law, has been, and will continue to be, impaired. The spread of COVID-19 among HGI's personnel and its service providers would also significantly affect HGI's ability to properly oversee the affairs of the Clients (particularly to the extent such impacted personnel include key investment professionals or other members of senior management), which could result in a temporary or permanent suspension of a Client's investment activities or operations.

Terrorist Activity. The properties of the Clients will generally be located in or near major metropolitan areas. Such properties, or any other properties, or the areas in which they are located could be subject to future acts of terrorism. In addition to the potential direct impact of any such future act, future terrorist attacks and the anticipation of any such attacks could have an adverse impact on the U.S. financial and insurance markets and economy, thus harming leasing demand for and the value of the properties. It is not possible to predict the severity of the effect that such future events would have on the U.S. financial and insurance markets and economy or the properties. These events may have a negative effect on the business and performance results of one or more of acquired or subsequently acquired properties, including by raising insurance premiums and deductibles and limiting available insurance coverage for the properties.

Global Economic Trends and Regulations. The range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. The effect of any such political, regulatory, economic or market outcomes on the Clients could be adverse.

Evolving trade deals between the U.S. and various countries remain uncertain and the volatility of such trade deal negotiations could have an adverse effect on the U.S. economy and the global markets. The upcoming 2020 U.S. Presidential election has also increased uncertainty regarding future political, legislative or administrative changes that may impact the Clients, their subsidiaries, investors and the Clients' portfolios. Significant uncertainty will be reflected in the

market regarding the consequences of the upcoming election, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. Uncertainty regarding the consequences of the election may have an adverse effect or may cause volatility in the U.S. or global economies and currency and financial markets in the short or long term, as well as the values of the Clients' investments and the Clients' ability to execute their investment strategies. Such changes could impact the laws and regulations applicable to the Clients, their subsidiaries, investors or the Clients' portfolios. While certain of such changes could beneficially impact the Clients, their subsidiaries or certain of their investments, other changes may more beneficially impact competitors of the Clients, or could adversely impact the Clients, their subsidiaries, Investors or their portfolios.

Risk of Prolonged Economic Slowdown or Recession. Interest rate movements and various economic indicators have resulted in concerns of a possible economic slowdown or recession in the near future. HGI believes the risks associated with a Client's operations will be more severe during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values. Declining real estate values will likely reduce the level of new bond originations since borrowers often use appreciation in the value of their existing properties to support the purchase of additional properties. Borrowers may also be less able to pay principal and interest on the bonds if the value of real estate weakens. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain and protect equity in the property declines. Further, declining real estate values significantly increase the likelihood that the Clients will incur losses on the bond portfolio in the event of default because the value of the collateral may be insufficient to cover the bond portfolio costs. Any sustained period of increased payment delinquencies, foreclosures or losses could materially adversely affect both a Client's net interest income from the bond portfolio as well as the Client's ability to acquire, sell and securitize the bonds, which would significantly harm its returns and the Client's ability to make distributions to the Investors.

Investments in Troubled Assets. The Clients may make investments in non-performing or other troubled assets utilizing leveraged capital structures. By their nature, these investments can involve a high degree of financial risk, and there can be no assurance that a Client's rate of return objectives will be realized or that there will be any return of capital. Investments in troubled assets are sometimes subject to certain additional potential liabilities which may exceed the value of the Client's original investment. For example, under certain circumstances, lenders that have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Numerous other risks also arise in workout and bankruptcy contexts, including the possibility that payments to the Client and distributions by the Client to the Investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

The General Partners may also find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by their respective Funds. The foreclosure process varies by jurisdiction and can be lengthy and expensive. Borrowers often assert claims, counterclaims and defenses to delay or prevent foreclosure actions, which can prolong and complicate an already difficult and time-consuming process. In some states or other jurisdictions, foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may

have the ability to file for bankruptcy, which would have the effect of staying the foreclosure action and further delaying the process, and materially increasing the expense thereof which expenses may or may not be recoverable by a Fund. Foreclosure litigation may create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property. In addition, antideficiency and related laws in certain states limit recourse and remedies available against borrowers in connection with or as a result of foreclosure proceedings or other enforcement actions taken with respect to such borrowers. Such laws can result in the loss of liens on collateral or personal recourse against a borrower altogether.

Development Investments are Subject to Certain Risks. The Clients may engage in real estate development, and it will be subject to the risks normally associated with such activities. Such risks include risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Clients, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on a Client. Properties under development may receive little or no cash flow from the date of acquisition through the date of completion of development and may continue to experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that makes such development less attractive than at the time it was commenced.

Industrial Investments are Subject to Certain Risks. Although owners of industrial properties are not generally required to expend substantial amounts for general capital improvements, tenant improvements or reletting costs, various other factors may affect the returns from this type of property in addition to the risks generally applicable to real estate, including, among other things, the design and adaptability of the property and the degree to which it is generally functional for industrial purposes, the proximity to highways and other means for the transportation of goods, the number and diversity of tenants among businesses or industries and the cost of converting a previously adapted space to general use. An industrial property may be more likely to have one or only a few tenants, which increases the risk that a decline in their operations or their particular business or industry segments may adversely affect the returns from the property. A property designed for a particular use or function also may be difficult to relet to another tenant or may become functionally obsolete compared to other properties. Particular uses of industrial properties may increase their risk of environmental problems. In addition, because of unique construction requirements of many industrial properties, many vacant industrial property spaces may not be easily converted to other uses. Thus, if the operations of any industrial property become unprofitable, the liquidation value of that industrial property may be substantially less than would be the case if the industrial property were readily adaptable to other uses.

Multifamily Investments are Subject to Certain Risks. The value and operation of multifamily properties may be affected by a number of factors, including, among others, the location of the property; the services and amenities provided by the property and its age, condition, appearance, construction quality and other physical attributes; management's ability to provide adequate maintenance and insurance; access to transportation; the level of mortgage interest rates, which may make the purchase of housing a more attractive alternative than leasing; the degree to which the tenant mix is dependent upon a particular segment or segments of the population (e.g., military

personnel); the property's reliance upon governmental or rent subsidy programs; and state and local regulations, which may affect the ability to increase rents.

Various laws and regulation regulate the relationship of a landlord and its tenants. These laws and regulations, to a greater or lesser extent, provide certain protections or rights for tenants or limit the landlord's ability to take action against a tenant in certain circumstances, including consumer protection statutes that prohibit certain landlord practices.

Office Investments are Subject to Certain Risks. A number of factors may affect the value of office properties, including, among other things, diversification of the tenant base (i.e., reliance on one or only a few tenants versus a greater number of tenants or tenants in similar types of businesses versus a greater diversity of businesses); and the location, appearance, amenities and other physical attributes of the properties; and competition from other office properties. Office properties generally require their owners to expend significant amounts for general capital improvements, tenant improvements and costs of reletting space. In addition, office properties that are not equipped to accommodate the needs of modern businesses may become functionally obsolete and thus non-competitive, or may require substantial capital investment to upgrade facilities in order to be competitive. Office properties may also be adversely affected if there is an economic decline in the businesses operated by their tenants. The risks of such an adverse effect are increased if the property revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

Retail Investments are Subject to Certain Risks. The revenues and values of retail properties are subject to a number of factors, such as the overall health of the economy, shifts in consumer demand and spending habits, competition from other forms of retail selling (e.g., discount centers, outlet malls and internet sales), trends in the retail industry and the safety, convenience and attractiveness of the properties. A number of retail leases, in addition to or in lieu of base rent, may include a provision for percentage rent that is dependent upon the amount of a tenant's sales. Rental income attributable to leases with percentage rent provisions may decrease in a general economic downturn that adversely affects tenant sales. Additionally, traditional retail centers often have anchor tenants (i.e., typically a tenant occupying a significant amount of the space). If an anchor tenant suffers a substantial downturn in its business, becomes insolvent or does not renew its lease, the center could experience a material reduction in the income and value of the center. Certain tenants at a retail center may have provisions in their leases permitting them to terminate their leases in the event an anchor tenant no longer occupies its space there. Other tenants at the retail center may refuse to renew their leases when the time comes. These events, individually or collectively, may result in large vacancies at the center for an extended period of time and thus have a substantial adverse affect on the revenues from the center and, consequently, its value. There may also be significant costs incurred to relet the vacant space of a former anchor tenant and any other tenants that terminate or refuse to renew their leases due to the anchor tenant's vacancy.

Hotel Investments are Subject to Certain Risks. The Clients may invest in hotel properties, and will be subject to the risks normally associated with hotel property investments. A number of factors may affect the value of hotel properties, including, among other things, changes in the national, regional and local economic climate, reduced demand and increased operating costs and other conditions resulting from terrorist attacks, changes in business and pleasure travel patterns,

local market conditions such as an oversupply of hotel rooms or a reduction in lodging demand, the attractiveness of the hotel to consumers and competition from comparable hotels, changes in room rates and increases in operating costs due to inflation and other factors or unionization.

Certain expenses associated with owning and operating hotels are fixed and do not necessarily decrease when circumstances such as marketing factors and competition cause a reduction in income from hotel investments. Cost reductions may be difficult to achieve if operating levels continue to decline. Regardless of these efforts to reduce costs, a hotel's expenses may be affected by inflationary increases, and in the case of certain costs, such as wages, benefits and insurance, may exceed the rate of inflation, and a hotel may be unable to offset these increased expenses with higher room rates. Any efforts to reduce operating costs or failure to make scheduled capital expenditures could adversely affect the growth of the hotel's business and the value of the hotel.

Investments in Real Estate Debt. The Clients may invest in a variety of real estate-related debt investments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real property investments, the Clients will be subject to a variety of risks in connection with such debt investments, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, risk retention rules, violations of usury laws and the imposition of common law or statutory restrictions on a Fund's exercise of contractual remedies for defaults of such investments. These real-estate debt investments may include instruments that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses.

Mezzanine Investments are Subject to Certain Risks. The Client may make mezzanine investments, including subordinated debt investments, which involve a high degree of risk with no certainty of any return of capital. Although mezzanine investments are senior to common stock and other equity securities or interests in the capital structure, they may be subordinated to large amounts of senior debt and are often unsecured. The ability of the holders of mezzanine securities to influence an issuer's affairs, especially during periods of financial distress or following insolvency, is likely to be substantially less than that of senior creditors. For example, under the terms of subordination agreements, senior creditors are typically able to block the acceleration of the mezzanine investments or other exercises by the subordinated creditors of their rights. Accordingly, a Client may not be able to take the steps necessary to protect its investments in a timely manner or at all.

Certain of a Client's mezzanine investments may be structurally or contractually subordinated to substantial amounts of indebtedness, all or a significant portion of which may be secured. Such mezzanine investments may not be protected by financial covenants or limitations upon additional indebtedness or the provision of collateral to other indebtedness, and there may be no minimum credit rating (or any credit rating) for such mezzanine investments. Other factors may materially and adversely affect the market price and yield of such mezzanine investments, including, without limitation, investor demand, changes in the financial condition of borrowers and underlying properties, government fiscal policy and domestic or worldwide economic conditions. The market for relatively illiquid mezzanine securities tends to be more volatile than the market for more liquid instruments.

Adverse changes in the financial condition of an issuer or in general economic conditions (or both) may impair the ability of such issuer to make payments on its mezzanine securities and result in defaults on, and declines in, the value of its mezzanine securities more quickly than in the case of the senior debt obligations of such issuer. The Clients may incur expenses if it is required to seek recovery upon default or to negotiate new terms with a defaulting issuer. In addition, a defaulted or non-performing mezzanine investment may be the subject of substantial and lengthy workout or restructuring negotiations. Such negotiations may result in a reduction of principal, delay in the payment of principal, change of interest rate and/or other substantial changes in terms that may affect the value of such investment and the cash flows from such issuer. The ability of a Client to influence such negotiations may be limited. The Client's remedies with respect to any collateral securing such securities will be subject to the decisions made by other lenders to the issuer. Even where the Client has effective control over the issuer, relevant jurisdictions may refuse to enforce certain remedies sought by the Client. The level of risk associated with investments in loans increases to the extent such investments are loans of distressed or below-investment-grade borrowers.

Preferred Equity Investments. A Client may invest in preferred equity interests in real estate companies and property-owning entities whose capital structures have significant leverage ranking ahead of the Client's investments. Preferred equity investments may be subject to greater credit risks than investment alternatives. The Client does not anticipate having absolute control over the underlying properties and will have rights that are subordinate to those of lenders. Accordingly, the Client may not be able to take the steps necessary to protect its investments in a timely manner or at all and there can be no assurance that the rate of return objectives of the Client or any particular investment will be achieved. The residual value of the property (after any outstanding debt) may be less than the outstanding amount of the Client's investment. In cases in which a Client invests in preferred equity interests, its rights and level of security will generally be less than if it held a secured or unsecured loan.

B-Notes are Subject to Certain Risks. The Clients may invest in "B-notes." A "B-note" is a mortgage loan that is typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an "A-note" secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note holders after payment to the A-note holders. B-notes reflect similar credit risks to comparably rated CMBS. Since each transaction is privately negotiated, however, B-notes can vary in their structural characteristics and risks. For example, the rights of holders of B-notes to control the process following a borrower default may be limited in certain investments. The Clients cannot predict the terms of each B-note investment. B-notes are also typically less liquid than CMBS, and, as a result, a Client may be unable to dispose of performing, underperforming or non-performing B-notes. The higher risks associated with the Client's subordinate position in the Client's B-note investments could subject them to increased risk of losses.

Structured Vehicles. A Client may invest in structured vehicles, including in securities issued by pooled credit vehicles, securitization entities and in highly structured subordinate debt or debt/equity-like securities. Such investments are highly complex. Their complexity gives rise to the risk that parties involved in their creation and issuance, and other parties with an interest in them, may not have the same understanding of how these investments behave, or the rights that the various interested parties have with respect to them. Furthermore, the documents governing

these investments may contain some ambiguities that are subject to differing interpretations. Even in the absence of such ambiguities, if a dispute were to arise concerning these instruments, there is a risk that a court or other tribunal might not fully understand all aspects of these investments and might rule in a manner contrary to both the terms and the intent of the documents. Therefore, a Client cannot be fully assured that it will be able to enjoy all of the rights that it expects to have when it invests in such highly-structured investments. In addition, due to their complex structure, such highly-structured investments may be difficult to value and will have substantially reduced liquidity.

Mortgage Investment Risks. The Clients may acquire real estate loans that are non-recourse to the borrower. Mortgage investments have special inherent risks relative to collateral value. In certain circumstances, a Client's loans may not be secured by a mortgage, but instead by partnership interests or other collateral that may provide weaker rights than a mortgage. In any case, in the event of default, the Client's source of repayment will be limited to the value of the collateral and may be subordinate to other lien holders. The collateral value of the property may be less than the outstanding amount of the Client's investment; in cases in which the Client's collateral consists of partnership or similar interests, the Client's rights and level of security may be less than if it held a mortgage loan. Returns on an investment of this type depend on the borrower's ability to make required payments, and, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan.

Mortgage-Backed Securities. The Clients may invest in certain mortgage-backed securities ("MBS"). The yield and payment characteristics of MBS differ from traditional debt securities. Interest payments and principal prepayments are made frequently, usually monthly, over the life of the underlying mortgage loans securing the MBS (although most of the principal on commercial mortgage loans typically is payable only at maturity and generally must be refinanced) and principal generally may be prepaid at any time, because the underlying mortgage loans may be prepaid at any time. MBS may be highly illiquid and the value of MBS may fluctuate widely. The value of some MBS may be particularly sensitive to changes in prevailing interest rates as described below. The other risks associated with MBS include: (i) credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; (ii) adverse changes in economic conditions and circumstances; (iii) prepayment risk, which can lead to significant fluctuations in the value of the MBS; (iv) loss of all or part of the premium, if any, paid for the MBS due to prepayments or interest rate fluctuations; (v) declines in the market value of the MBS due to capital markets fluctuations, prepayments on the underlying mortgage collateral or increased credit risk associated with the underlying mortgage collateral; and (vi) the risk that debtors, who may be entitled to the protection of a number of consumer credit laws with respect to MBS, may have the right to avoid payment.

Because MBS are generally ownership or participation interests in pools of mortgage loans secured by a pool of commercial or residential properties, the MBS are entitled to payments only when and if funds are generated by the underlying mortgage loan pool. Moreover, the holders of MBS do not have the legal status of secured creditors, and cannot accelerate a claim for payment on their securities, or force a sale of the underlying mortgage loan pool in the event that insufficient funds exist to pay such amounts. The holders of MBS also do not typically have the right to remove a servicer as a result of a failure of the underlying mortgage pool to perform as expected. In addition, legal risks can arise with respect to MBS as a result of the procedures

followed in connection with the origination and servicing of commercial and residential mortgage loans, which are subject to various laws, which regulate interest rates and other charges, require certain disclosures, mandate licensing of originators, prohibit discriminatory lending practices, and regulate the use of consumer credit information and debt collection practices. Such laws may limit a servicer's ability to collect all or part of the principal of or interest on a mortgage loan.

The MBS in which the Clients may invest may be subordinated to one or more other senior classes of securities issued with respect to the same pool of underlying mortgage loans for purposes of, among other things, offsetting losses and other shortfalls with respect to such mortgage loans. A Client may invest in loans and B-pieces of securitizations. In the case of certain subordinated MBS, no distributions of principal will generally be made on such subordinated class until the aggregate principal balances of all corresponding senior classes of securities have been reduced to zero. As a result, subordinate MBS classes are more sensitive to risk of loss, write-downs of principal following collateral defaults, the non-fulfillment of repurchase obligations, overadvancing on a pool of loans and the costs of transferring servicing than more senior classes of such securities.

Investment in Junior Securities. The securities in which a Client may invest may be among the most junior in an investment's capital structure, and thus subject to the greatest risk of loss. These investments will generally be unsecured and may be subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. In addition, these securities may not be protected by any or all of the financial covenants, such as limitations upon additional indebtedness, typically protecting such senior debt. Holders of these investments and other junior capital securities generally are not entitled to receive any payments in bankruptcy or liquidation until senior and other creditors are paid in full. In addition, the remedies available to holders of these securities are normally limited by restrictions benefiting senior creditors. In the event any investment cannot generate adequate cash flow to meet senior debt service, the Client may suffer a partial or total loss of capital invested in such subordinate debt or debt/equity like securities. There can be no assurances that investments will not experience financial difficulties, resulting in significant losses.

Uncertain Risks Relating to Freddie Mac. Under the current Federal Housing Finance Regulatory Reform Act of 2008 ("Reform Act"), Freddie Mac could be placed into receivership for several reasons including but not limited to insolvency, inability of the Treasury to fund net worth deficits, or other reasons set forth under the Reform Act at the discretion of the Director of the Federal Housing Finance Agency ("FHFA"). If FHFA were to become Freddie Mac's receiver, it could exercise certain powers that could adversely affect the holders of Freddie Mac securities. As receiver, FHFA could repudiate any contract entered into by Freddie Mac prior to its appointment as receiver if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Freddie Mac's affairs. It could also transfer Freddie Mac's obligations to another party and holders of Freddie Mac securities would be exposed to the credit risk of that party. The Reform Act requires that any exercise by FHFA of its right to repudiate any contract occur within a reasonable period following its appointment as receiver. FHFA has defined such a reasonable period to be eighteen (18) months.

Future legislation may also materially affect the role of Freddie Mac, its business model, its structure and future results of operations. On March 27, 2019, U.S. President Donald Trump issued a memorandum on federal housing finance reform directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve housing reform goals, including the following: ending the conservatorships of Freddie Mac, facilitating competition in the housing finance market, establishing regulation of Freddie Mac that safeguards its safety and soundness and minimizes the risks it poses to the financial stability of the U.S. and providing that the federal government is properly compensated for any explicit or implicit support it provides to Freddie Mac. The Treasury released its housing reform plan on September 5, 2019 pursuant to President Donald Trump's memorandum on federal housing finance reform and it is difficult to predict what regulatory and legislative policies or actions the current administration will pursue with respect to Freddie Mac.

General Credit Risk. The issuers of debt instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. In addition, major economic downturns and financial market swings have adversely affected, and could in the future adversely affect, the ability of some of the issuers of such instruments to repay principal and pay interest thereon and may increase the incidence of default for such instruments.

The price of an instrument is affected by the credit quality of its issuer. Changes in the financial condition of an issuer, changes in general economic and financial market conditions, and changes in specific economic conditions that affect a particular type of issuer, can impact the credit quality of an issuer. Lower quality instruments are often considered to be speculative in nature and involve greater risk of default, and tend to be more sensitive to these changes than higher quality instruments. Instruments that are unrated or below investment grade may be unlikely to have the capacity to pay interest and repay principal when due, in the event of adverse business, financial, or economic conditions.

Prepayment Risk. Certain loans may have prepayment provisions that permit early repayment of the loans. Prepayments on loans are affected by a number of factors. If prevailing rates for similar loans fall below the interest rates on such loans, prepayment rates would generally be expected to increase. Conversely, if prevailing rates for similar loans increase above the interest rates on a Client's applicable loans, prepayment rates would generally be expected to decrease. Certain of a Client's loans may have lockout periods during which prepayment is prohibited or require prepayment penalties or premiums. However, loans in which the Client invests may permit prepayment after such lockout periods or the periods for such prepayment penalties or premiums have expired. Prepayments on a loan are also affected by the value of the related collateral, the borrower's equity in the collateral, the financial circumstances of the borrower, fluctuations in the business operated by the borrower on the collateral, competition, general economic conditions and other factors. If loans repay at a rate faster than anticipated, yields to investors may be reduced.

Interest Rate Risk. Changes in the prevailing interest rates offered by lenders to borrowers to purchase, improve, or otherwise finance commercial real estate could have an adverse impact on the operations and returns of Clients. A Client's returns will be largely dependent on interest

income. Market interest rates are beyond the Client's or HGI's control, and can fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies. Because the Client's assets may include both floating and fixed rate loans, changes in prevailing interest rates may have an adverse impact on the Client's returns. In times of rising interest rates, default risk among borrowers with floating rates may increase as their payments increase. A rising interest rate environment may also encourage borrowers with floating rate loans to refinance into fixed-rate loans. In times of decreasing interest rates, borrowers may be inclined to refinance fixed-rate loans. There is no assurance that a Client will be able to, or desire to, provide such refinancings. The rate at which loans are prepaid will vary based on various factors, including overall economic conditions, availability and terms of new financing alternatives, and prevailing interest rates. If the Client experiences a higher than expected rate of prepayments on its loans, it may impact the Client's returns.

Non-Performing Loans. The Clients may acquire real estate-related indebtedness if the real property underlying such indebtedness complies with the investment strategy, property profile and hold period of such Clients for such property type. It is possible that the General Partner may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by a Client. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Systemic Risk. Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs. A default by one institution may cause a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Fund interacts. A systemic failure could have material adverse consequences on the Fund and on the markets for the securities in which the Clients seek to invest.

Potential Limited Enforceability of Remedies. Generally, debt instruments, mortgages or other security agreements in which a Client may invest will include debt-acceleration clauses, which permit the lender to accelerate the debt upon a default of the borrower. The courts of all U.S. states will enforce clauses providing for acceleration in the event of a material payment default after the giving of appropriate notices. The equity courts of any U.S. jurisdiction, however, may refuse to permit the foreclosure of a debt instrument, a mortgage or deed of trust or other security interest when an acceleration of the indebtedness would be inequitable or unjust or the circumstances would render the acceleration unconscionable.

Potential Lender Liability. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving

legal theories (collectively termed, “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower, or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of the Clients’ investments, a Client could become subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as an equity holder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain of the Clients’ investments and investments in an obligor by affiliates of the Clients, a Client could be subject to claims from creditors of an obligor that the Client’s investments issued by such obligor that are held by the Client should be equitably subordinated. A significant number of the Clients’ investments will involve investments in which the Clients would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting a Client’s investments could arise without the direct involvement of the Client.

Investments Outside the United States. The Client legal systems of some countries lack transparency or could limit the protections available to foreign investors, and the Funds’ investments may be subject to nationalization and confiscation without fair compensation. Real estate related investing outside the United States involves additional risks including the following: (i) currency exchange rate fluctuations and costs associated with conversion of investment principal and income from one currency into another; (ii) differences in conventions relating to documentation, settlement, corporate actions, shareholder rights and other matters; (iii) differences between U.S. and foreign securities and real estate markets, including potentially higher price volatility and relative illiquidity of some markets; (iv) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (v) the risks associated with political, economic or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation and other adverse economic and political developments; (vi) the possible imposition of non-U.S. taxes on income and gains and gross sales or other proceeds recognized with respect to such investments; (vii) less developed corporate laws regarding stakeholder rights, creditors’ rights (including the rights of secured parties), fiduciary duties and investor protections; (viii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance, including potential currency control regulations, and potential restrictions on investment and repatriation of capital; (ix) political hostility to investments by foreign or private equity investors; and (x) less publicly available information.

United Kingdom Exit from the European Union. On June 23, 2016, the people of the United Kingdom voted in a referendum to leave the European Union. Under the process for leaving the

European Union contemplated in article 50 of the Treaty on the Functioning of the European Union, the United Kingdom left the European Union on January 31, 2020 and entered an 11-month transitional period. During the transitional period, the United Kingdom and the European Union will negotiate the terms of their future relationship and during this period most European Union laws will continue to apply to the United Kingdom. There is no guarantee that an agreement between the United Kingdom and the European Union will be reached at the end of the transitional period. Accordingly, it is currently unclear under what terms the United Kingdom will cease to be a member of the European Union. As a result of the United Kingdom ceasing to be a member of the European Union, the manner in which the Clients invest in assets located within the European Union may be impacted. The terms of the United Kingdom's exit from the European Union are not clear, and the shape of the regulatory landscape following exit is not yet defined; the legal, political and economic uncertainty generally resulting from the United Kingdom exit from the European Union may adversely impact United Kingdom-based businesses, and may also result in an economic slowdown and/or a deteriorating business environment in one or more European Union Member States.

Changes in State or Local Laws. Because increases in state or local sales, income, service or transfer taxes are generally not passed through to tenants under leases, such increases may adversely affect a Client's cash flow and its ability to make distributions to its limited partners. Real property is also subject to governmental authorities at the federal, state and local levels who are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions. Regulations may be promulgated that could have the effect of restricting or curtailing certain uses of existing structures or requiring that such structures be renovated or altered in some fashion. The establishment of such regulations could have the impact of increasing the expenses and lowering the profitability of any of the properties affected thereby. Increased costs resulting from increases in real estate, income or transfer taxes or other governmental requirements generally may not be passed through directly to residents, tenants or lessees, inhibiting the ability of the Client to recover such costs.

Investments may be Subject to the Americans with Disabilities Act. Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations and commercial facilities are required to meet certain federal requirements related to access and use by disabled persons. Existing industrial properties generally are exempt from the provisions of the ADA but may be subject to provisions requiring that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers. Non-compliance with the ADA could result in imposition of fines by the U.S. government or an award of damages to private litigants. Future changes to federal, state and local laws also may require modifications to a Client's properties, or restrict the Client's ability to renovate its properties. While the amounts of such compliance costs, if any, are not currently ascertainable, they may have an adverse effect on the Client. Generally, remediation work and lawsuits related to ADA issues are not covered by insurance policies obtained by a Client.

Cybersecurity Risk. HGI, the Clients' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Clients and their Investors, despite the efforts of HGI and the Clients' service providers

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

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

Possibility of Fraud and Other Misconduct of Employees and Service Providers. Misconduct by employees of HGI, service providers to HGI or the Funds and/or their respective affiliates could cause significant losses to such Funds. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by such Funds, the improper use or disclosure of confidential or material non-public information, which could result in litigation, regulatory enforcement or serious financial harm, including limiting the business prospects or future marketing activities of such Funds and noncompliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to such Funds. HGI has controls and procedures through which it seeks to minimize the risk of such misconduct occurring. However, no assurances can be given that HGI will be able to identify or prevent such misconduct.

Item 9: Disciplinary Information

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

Item 10: Other Financial Industry Activities and Affiliations

HGI is a large global organization that sponsors real estate investment opportunities, and as such has numerous related persons that serve as a sponsor, general partner, managing member (or equivalent) to related Clients. Harbor Group International, LLC has five relying advisers: HGGP

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

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

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

Code of Ethics

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

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

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

Participation or Interest in Client Transactions

HGI, its Employees or affiliated entities (collectively “Related Persons”), will generally have an investment in the Funds managed by HGI. A Fund or its General Partner or Manager, as

applicable, may reduce all or a portion of the asset management fee and Carried Interest related to investments held by such persons. As a result, Related Persons have an interest in an investment that may also be recommended to the Funds. For further details regarding these arrangements, as well as conflicts of interests presented by them, please see “Conflicts of Interest” below.

Personal Trading

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

Conflicts of Interest

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

Resolution of Conflicts

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

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

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

Conflicts

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

Allocation of Investment Opportunities Among Clients

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

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

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

In instances when HGI may be in a position to allocate investment opportunities to more than one Client at a time, it will use reasonable efforts to ensure that each Client is treated in a fair and equitable manner. In making any such allocation, HGI may consider, among other things, each Client's investment objectives and investment focus, diversification (both geographically and by type and size of investment), the actual, relative or potential exposure of a Client to the type of investment opportunity in terms of its existing portfolio, each Client's liquidity and reserves (including whether a Client is able to commit to invest all capital required to consummate a particular investment opportunity), structural and operational differences between the Clients, lender covenants and other limitations, any "ramp-up" period for a newly established Client; targeted rate of return, composition of each Client's portfolio and each Client's investment

concentration parameters, availability of committed capital and the length of time such capital has been available for investment, availability of other suitable investments, risk considerations, supply or demand for an investment opportunity at a given price level, cash flow considerations, the likelihood of current income, the centrality of an investment to each Client's strategy, minimum and maximum investment size requirements, whether an investment opportunity requires additional consents or authorizations from the Client, Investors or third-parties, whether an investment opportunity would enable a Client to qualify for certain programmatic benefits or discounts that are not readily available to other Clients including, but not limited to, the ability to enter into credit arrangements with certain financial or government institutions, and applicable legal, tax and regulatory considerations. HGI will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Client or (ii) the profitability of any Client. The application of the Investment Allocation Requirements and factors set forth above may result in allocation on a non-pro rata basis and there can be no assurance that a Client will participate in all investment opportunities that fall within its investment objectives.

Secondary Transactions

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

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

Conflicts Related to Purchases and Sales

Funds from time to time invest in conjunction with an investment being made by other Clients, or in a transaction where another Client has already made an investment. Conflicts may arise in connection with such investments. Investments by more than one Client of HGI in a property also raise the risk of using assets of a Client of HGI to support positions taken by other Clients of HGI. Investment opportunities may, from time to time be appropriate for Clients at the same, different or overlapping levels of a portfolio investment's capital structure. Conflicts arise in determining

the terms of portfolio investments, particularly where these clients may invest in different types of securities in a single investment. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest, particularly in Clients that have invested in different securities within the same portfolio investment. In the event that one Client has a controlling or significantly influential position in an investment, it will have the ability to control the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling Client is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such an investment. Such management and operational decisions may, at times, be in direct conflict with other Clients that have invested in the same investment that do not have the same level of control or influence over the investment.

The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, Clients will be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the Clients may or may not provide such additional capital, and if provided each Client will supply such additional capital in such amounts, if any, as determined by HGI. Investments by more than one client of HGI in a portfolio investment will also raise the risk of using assets of a client of HGI to support positions taken by other clients of HGI, or that a client may remain passive in a situation in which it is entitled to vote. In addition, there may be differences in timing of entry into, or exit from, an investment for reasons such as differences in strategy, existing portfolio or liquidity needs. In addition, where more than one Client of HGI invest in the same investment, there can be no assurance that such parties will dispose of investments at the same time and on the same terms. Investments disposed of at different times will likely be disposed of at different valuations and, as a result, each Client may realize different returns as compares to the same investment held by another Client. These variations in timing may be detrimental to a Client.

The applicable Governing Client Documents and HGI's policies and procedures are expected to vary based on the particular facts and circumstances surrounding each investment by two or more Clients in different classes of an issuer's capital structure (as well as across multiple issuers or borrowers within the same overall capital structure) and, as such, there may be a degree of variation and potential inconsistencies, in the manner in which potential or actual conflicts are addressed.

Officers, principals, employees and other Related Persons of HGI and its affiliates have made or may make capital investments in or alongside certain Clients, and therefore often have additional conflicting interests in connection with these investments. Furthermore, HGI makes capital investments alongside certain Clients, which results in further conflicting interests in connection with these investments. In addition, Clients from time to time invest in securities of investments in which officers, principals, employees and other Related Persons of HGI and its affiliates have

previously invested for their own accounts. There can be no assurance that the return of a Client participating in a transaction would be equal to and not less than another Client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

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

Cross-Transactions

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

Principal Transactions

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security

to, a client (what is commonly referred to as a “principal transaction”), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with HGI’s management of the Clients, HGI and its affiliates may engage in principal transactions. HGI has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Client(s) regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Management of the Clients

HGI and its affiliates may enter into more separate account arrangements, raise additional private funds or form additional investment entities, including but not limited to those described above, with the same or substantially similar investment objectives as the Clients. Any such additional entities would compete with certain Clients for the time and expertise, services or functions of HGI Employees and owners as well as for suitable investment properties. Allocation of available investment opportunities between the Clients and any such client could give rise to conflicts of interest. See “*Allocation of Investment Opportunities Among Clients*” above. In addition, HGI may give advice or take actions with respect to, the investments of one or more Client that may not be given or taken with respect to other Clients with similar investment programs, objectives or strategies. As a result, Clients with similar strategies will not hold the same securities or achieve the same performance. In addition, a Client generally may not be able to invest through the same investment vehicles, or have access to similar credit or utilize similar investment strategies as another Client. These differences will result in variations with respect to price, leverage and associated costs of a particular investment opportunity.

In addition, HGI and its affiliates receives and generates various kinds of investment data and other information, including related to financial, industry, market, business operations, trends, budgets, customers, suppliers, competitors and other metrics. This information may, in certain instances, include material non-public information received or generated in connection with efforts on behalf of one Client’s investment (or prospective investment) or on behalf of an affiliate’s client’s investment (or prospective investment). As a result, HGI is better able to anticipate macroeconomic and other trends, and otherwise develop investment strategies. HGI and its affiliates have in the past and are likely in the future to enter into information sharing and confidentiality arrangements with investments and other sources of information that may limit the internal distribution and use of such data. HGI and its affiliates have already and are likely in the future in certain instances to use this information in a manner that may provide a material benefit to HGI, its affiliates, or to certain other Clients or affiliate’s clients without compensating or otherwise benefitting the Client or Clients (or affiliate’s client or clients) from which such information was obtained. In addition, HGI may have an incentive to pursue investments based on the data and information expected to be received or generated. HGI and its affiliates have in the past and are likely in the future to utilize such information to benefit HGI, its affiliates, certain Clients or its affiliate’s clients in a manner that may otherwise present a conflict of interest but does not intend to specifically disclose such conflicts to the relevant Clients.

HGI and its affiliates may also enter into formal or informal arrangements with portfolio investments to facilitate the sharing of data and/or data analytics. Subject to applicable legal, regulatory and contractual requirements, these information sharing arrangements are designed to allow HGI, the Clients and the Clients' portfolio investments to better discern economic or other trends and developments. HGI believes that all Clients benefit from these arrangements in ways that would be impossible without the ability to aggregate data from across HGI's businesses and the Clients' portfolio investments. However, information sharing may involve conflicts of interest between the Clients and/or between the Clients and HGI. For example, data analytics based on inputs from one portfolio investment may inform business decisions by other portfolio investments, or investment decisions by HGI and its affiliates, without the source of the data being directly compensated. HGI and its affiliates may utilize such data outside of Client activities in a manner that may provide a material benefit to HGI, without directly compensating or otherwise benefiting the Clients. As a result, HGI may have an incentive to pursue investments (on its own behalf or on behalf of the Clients) based on the data that may be accessible as a result of owning such investments, and/or to utilize such data in a manner that benefits HGI and/or investments held by other Clients.

Conflicts Relating to the General Partners, Managers and HGI

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

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

Affiliated Service Providers

As noted above in *Item 5 (Fees and Compensation)*, HGI generally retains service providers for certain property management, construction management, and other services applicable to a property, which may be an affiliate of HGI. The service provider receives a fee from the

applicable property or Client (or is reimbursed from the applicable property). A conflict of interest arises when engaging an affiliate as a service provider, because HGI has an incentive to recommend an affiliate even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost. The Governing Client Documents of a Client may set forth parameters and/or restrictions on the use of affiliated service providers.

Any fees charged by an affiliated service provider will reflect market rates rather than the cost incurred by the applicable service provider, as determined by HGI in its reasonable discretion. In addition, each service provider will be reimbursed for the expenses incurred by such service provider. While HGI may, in its discretion, obtain benchmarking data regarding third-party rates for similar services, relevant comparisons may not be available for a variety of reasons, including as a result of lack of a substantial market of providers or users for such service, confidentiality reasons and the bespoke nature of certain services. As a result, market comparisons may not (and often do not) result in precise comparable data for certain services. Any fees or expenses payable to a service provider are in addition to any asset management fee, Carried Interest, or other fee or compensation received by a service provider and will not reduce such fees paid by the Clients. In those instances in which such services benefit multiple properties or other investments or multiple investment vehicles, such fees may be prorated or allocated in a reasonable manner among such properties or investments.

Additionally, affiliated service providers (including affiliated property managers) will be reimbursed for certain expenses and costs, including the salaries and travel expenses of the applicable employees, which may be substantial. Travel expenses may include, without limitation, commercial and non-commercial transportation costs (including chartered, private plane, first class or business class travel and private car travel), lodging and accommodations.

Fee Structure

Because there is a fixed investment period after which capital from Investors in certain Funds will only be drawn down in limited circumstances and because asset management fees are, at certain times during the life of such Funds, based upon invested equity, this fee structure creates an incentive to deploy capital when HGI would not otherwise have done so. However, the investment made by HGI or its affiliates in a Fund, the clawback obligation of the General Partner (as described below) and the fact that the preferred return is calculated on an aggregate basis reduces the incentive to make speculative investments or otherwise time the sale of an investment in a manner motivated by the personal benefit of HGI's personnel.

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

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

In addition, the General Partner is incentivized to hold on to investments that have poor prospective for improvement in order to receive ongoing asset management fees in the interim and, potentially, a more likely or larger Carried Interest distribution if such asset’s value appreciates in the future. This incentive is increased by the presence of the clawback obligation of the General Partner.

Fund Level Borrowing

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

To the extent the Fund uses borrowed funds in advance or in lieu of capital contributions, the Fund’s Investors generally make correspondingly later capital contributions, but the Fund will bear the expense of interest on such borrowed funds. As a result, the Fund’s use of borrowed funds could impact the calculation of net performance metrics (to the extent that they measure investor cash flows) and could make net IRR calculations higher than they otherwise would be without fund-level borrowing as these calculations generally depend on the amount and timing of capital contributions. It is expected that the interest will accrue on any such outstanding borrowings at a lowered rate than any preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Fund. Thus, while the Fund will bear the expense of borrowed funds, such borrowings could also increase the carried interest received by the Fund’s General Partner by decreasing the amount of distributions from the Fund that are required to be made to Fund Investors in satisfaction of any preferred return. In such circumstances the General Partner may have a conflict of interest in deciding whether to borrow funds because the General Partner may receive disproportionate benefits from such borrowings.

In addition, the batching of capital calls may amplify the magnitude of potential defaults by Investors as a result of there being fewer but larger capital calls. To the extent a subscription facility is due upon demand by a lender (such as upon an event of default or otherwise), such a demand may be issued at an inopportune time at which liquidity is generally constrained, potentially resulting in greater defaults as a result of such liquidity constraints and/or Investors facing similar capital calls in multiple Funds and being unable to satisfy all such demands simultaneously. Moreover, the existence of a subscription facility may impair an investor’s ability to transfer its interest in a Fund as a result of restrictions imposed on such transfers by the lender.

Borrowing by the Fund will generally be secured by capital commitments made by the Investors to the Fund and/or by the Fund’s assets, and documentation relating to such borrowing may

provide that during the continuance of a default under such borrowing, the interests of the investors may be subordinated to such Fund-level borrowing. Moreover, tax-exempt Investors should note that the use of borrowings by the Fund may cause the realization of Unrelated Business Taxable Income.

Diverse Membership

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

Side Letter Agreements

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

Business with Investors; Service Providers

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

Additionally, employees of HGI or its affiliates, and/or their family members or relatives may have ownership, employment, or other economic or other interests in certain service providers. These relationships that HGI may have with a service provider can influence HGI in determining whether to select, or recommend such service provider to perform services for a Fund or a portfolio investment. HGI will have a conflict of interest with the Clients in recommending the

retention or continuation of a service provider to the Clients or a portfolio investment if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Clients or will provide HGI information about markets and industries in which HGI operates or is interested or will provide other services that are beneficial to HGI. Although HGI selects service providers that it believes will enhance portfolio investment performance (and, in turn, the performance of the relevant Client(s)), there is a possibility that HGI, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Certain other service providers to HGI, the Clients and/or the investments, or affiliates of such service providers, also provide goods or services to or have business, personal, financial or other relationships with HGI, its affiliates, or their respective investments. Such service providers (or their employees) may also source of investment opportunities, be co-investors or commercial counterparties or entities in which HGI and/or the Clients have an investment, and payments by a Client and/or such investments may indirectly benefit HGI and/or such Client.

HGI, its personnel or its affiliates and service providers, often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required and the time demands of the service provider. As a result, to the extent the services required by HGI, its affiliates or their personnel differ from those required by the Clients and/or its portfolio investments, HGI, its affiliate and their personnel will pay different rates and fees than those paid by the Clients and/or their portfolio investments.

HGI and its affiliates have in the past and may, from time to time hire part-time or full-time employees (including interns) who are relatives of, or are otherwise associated with an Investor, an investment or service provider. Although HGI uses reasonable care to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee HGI can control all such conflicts of interest and there may be a continuing appearance of a conflict of interest.

Services required by a Client (including some services historically provided by HGI or its affiliates to the Clients) may, for certain reasons including efficiency and economic considerations be outsourced in whole or in part to third parties or licensed software, in each case in the discretion of HGI or its affiliates. HGI and its affiliates have an incentive to outsource such services at the expense of the Clients to, among other things, leverage the use of HGI personnel. Such services may include, without limitation, investment sourcing, asset management, information technology, licensed software, depository, data processing, client relations, administration, custodial, marketing and marketing-reviews, accounting, valuation, legal, human resources, client services, compliance, corporate secretarial and tax support, director services and other similar services. Outsourcing may not occur universally for all Clients and accordingly, certain costs may be incurred by a Client for a third-party service provider that is not incurred for comparable services by other Clients. The decision by HGI to initially perform a service for a Client in-house does not preclude a later decision to outsource such services (or any additional services) in whole or in part to a third-party service provider in the future and HGI has no obligation to inform such Clients or Investors of such a change. In addition, certain internal service providers (such as internal accountants) may “shadow” or otherwise review the reports of

other service providers provided by such third parties. The costs and expenses of any such third-party service providers will be borne by the relevant Clients.

If a service provider provides services to a Client on the property of HGI, such Client or property may indirectly be responsible for any overhead, rent or other fees, costs and expenses charged by HGI in connection with an on-site arrangement.

Other Potential Conflicts

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

HGI and the Clients will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be Investors in a Fund, and may also represent one or more portfolio investments or Investors in a Fund. In the event of a significant dispute or divergence of interest between Clients, HGI and/or its affiliates, the parties may engage separate counsel in the sole discretion of HGI and its affiliates, and in litigation and other circumstances separate representation may be required. Additionally, HGI and the Clients and the portfolio investments of the Clients will, from time to time engage other common service providers. In certain circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to HGI, the Clients, and/or the portfolio investments. This may result in HGI receiving a more favorable rate on services provided to it by such a common service provider than those payable by the Clients and/or the portfolio investment, or HGI receiving a discount on services even though the Clients and/or the portfolio investments receive a lesser, or no, discount. This creates a conflict of interest between HGI, on the one hand, and the Clients and/or portfolio investments, on the other hand, in determining whether to engage such service providers, including the possibility that HGI will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Clients and/or the portfolio investments. Neither the Clients nor investors in the Clients will receive the benefit of any such favorable rate or discount provided to HGI, its personnel or its affiliates, and the asset management fee paid by any Client will not be reduced in connection with such favorable rate or discount.

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

HGI and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Client. For example, airline travel or hotel stays incurred as Client expenses may result in “miles” or “points” or credit in loyalty/status programs to HGI and/or its personnel, and such benefits, rewards and/or amounts (whether *de minimis* or difficult to value) will exclusively benefit HGI and/or such personnel even though the cost of the underlying service is being borne by the Clients, their Investors, and/or portfolio investments. Any such benefits, rewards and/or amounts will not be subject to the offset arrangements described above or otherwise shared with such Client, its Investors and/or the portfolio investments. In addition, airline travel incurred as a Client expense for HGI personnel travelling for appropriate Client-related purposes (including, without limitation, travel related to a portfolio investment, a prospective portfolio investment or other Client-related matter) may benefit HGI personnel to the extent the trip also serves a personal purpose.

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

Item 12: Brokerage Practices

Selecting or Recommending Broker-Dealers

As the Clients invest principally in real estate assets, HGI is rarely required to select or recommend broker-dealers for Client securities transactions. In circumstances where securities brokers or dealers are required, HGI will endeavor to select those brokers or dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services that will help us in providing investment management services to the applicable Clients. HGI may therefore use the broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all of our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

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

Item 13: Review of Accounts

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

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

Item 14: Client Referrals and Other Compensation

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

While not a client solicitation arrangement, HGI may periodically engage finders to make introductions to HGI personnel. The fees and expenses of any finder will be paid by HGI. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such Fund that are subsequently accepted.

Item 15: Custody

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

Item 16: Investment Discretion

HGI generally has discretionary authority to determine, without obtaining specific consent from the Clients or Fund Investors, the investments and the amounts to be bought or sold on behalf of the Clients. With respect to the Funds, investment advice is provided directly to the Funds, subject to the direction and control of the General Partner or Manager of each Fund, and not

individually to the Investors in the Funds. Services are provided to the Clients in accordance with the Governing Client Documents of the applicable Client. Investment restrictions for the Clients, if any, are generally established in the Governing Client Documents of the applicable Client.

Item 17: Voting Client Securities

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

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

Item 18: Financial Information

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