

**FIRM BROCHURE**

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ADDITIONAL INFORMATION ABOUT L&B REALTY ADVISORS, LLP ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).

MARCH 26, 2020

## **Item 2: Material Changes**

The date of the last annual update to our firm brochure was March 29, 2019. A summary of certain changes that have been made to our firm brochure since the date of our last annual update is set forth below:

- We revised and updated our regulatory assets under management in Item 4.
- We made various additions, revisions and updates to the risk factor disclosures set forth in Item 8.

The information set forth in this brochure is qualified in its entirety by the applicable governing, offering and/or account documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable governing, offering and/or account documents, such documents shall control.

We encourage all investors and clients to carefully review this brochure in its entirety.

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## Item 4: Advisory Business

### FIRM DESCRIPTION

L&B Realty Advisors, LLP, a Delaware limited liability partnership and real estate investment advisory firm, was formed in 1965. We provide real estate investment management services to real estate pooled investment vehicles, private institutional clients and separately managed accounts. Our investment advice is provided in accordance with the investment objectives and guidelines set forth in the applicable offering, governing and/or account documents. The information set forth in this brochure is qualified in its entirety by the information set forth in the applicable offering, governing and/or account documents.

### PRINCIPAL OWNERS

We are owned and controlled by Daniel L. Plumlee and G. Andrews Smith.

### TYPES OF ADVISORY SERVICES

#### Separately Managed Accounts

We provide real estate investment and portfolio management services with respect to separately managed accounts (the “Accounts”) of various institutional, private and other clients. We also provide investment advice to pension plans. As portfolio manager, we execute full-service investment management: from acquisition to asset management to disposition. The Accounts are managed in accordance with the terms, conditions and limitations set forth in the management agreement entered into with each client.

As an independent fiduciary, we also provide financial advisory and owner representation services. Our financial advisory services include asset acquisitions, portfolio assessments, feasibility analyses, equity/debt workouts and hold/sell analyses. Our owner representation services cover the full spectrum of real estate investment management including portfolio management, asset management, development oversight, construction management, property management, property accounting and reporting and disposition process management. We may provide services on a discretionary or non-discretionary basis.

#### The Fund

We serve as investment adviser to L&B Core Income Partners, L.P. (the “Fund”), a pooled investment vehicle organized as a Delaware limited partnership that invests directly or indirectly in real estate and real estate related assets. One of our affiliates serves as general partner to the Fund.

We serve as investment and portfolio manager with respect to the Fund and are responsible for investing and reinvesting the assets of the Fund primarily in real estate-related investments. The Fund is managed in accordance with the investment objectives, policies and guidelines set forth in its offering and governing documents.

Information about the Fund is set forth in its confidential memorandum and/or applicable governing documents. Investment in the Fund does not, in and of itself, create an advisory relationship between an investor in the Fund and us.

#### General

We tailor our advisory services to the individual needs and objectives of our clients, and clients generally are permitted to impose reasonable restrictions on investments.

### ASSETS UNDER MANAGEMENT

As of December 31, 2019, we had a total of approximately \$9 billion in assets under management. Approximately \$1 billion of these assets were managed on a discretionary basis, and approximately \$8 billion of these assets were managed on a non-discretionary basis.

However, for purposes of calculating the amount of regulatory assets under management disclosed in Item 5.F(2) of Part 1A of Form ADV, we include only the aggregate balance of the securities portfolios of the Fund as of December 31, 2019.

## Item 5: Fees and Compensation

### DESCRIPTION OF COMPENSATION AND FEE SCHEDULE

In consideration of our advisory services, we and/or certain of our affiliates generally receive management fees and may also receive performance-based fees or distributions with respect to our clients. The fees applicable to each client are described in detail in the applicable governing, account and/or offering documents. Nevertheless, a general overview of our basic fee schedule is set forth below.

#### Separately Managed Accounts

With respect to the Accounts, we generally are entitled to receive an acquisition fee equal to between .50% and 1.0% of the total asset value of each acquired asset.

In addition, we generally are entitled to receive a management fee, payable quarterly in arrears, equal to either (i) between 0.45% and 1.25% of the net asset value of the Account or (ii) between 5% and 8% of the net operating income of the Account.

We also may be entitled to receive performance-based fees or distributions pursuant to the terms and conditions set forth in the applicable investment management agreements.

We negotiate fees with respect to each Account on a case by case basis and such fees are expected to vary.

#### The Fund

With respect to the Fund, we generally are entitled to receive a management fee, payable quarterly in arrears, equal to the product of (a) 0.20% (the “Management Fee Rate”) and (b) the aggregate price of the outstanding units (0.80% per annum); *provided, however*, the Management Fee Rate is reduced with respect to (a) the Class A units to 0.1125% (0.45% per annum) and (b) the Class B Units to 0.15% (0.60% per annum).

Each investor in the Fund is required to be, among other things, a “qualified purchaser” as such term is defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended.

Our fees with respect to the Fund and each investor therein generally are not negotiable. However, we have entered into and may enter into side letters or similar arrangements with certain investors that grant different terms (including lower fees) to such investors than the terms generally applicable to other investors.

### PAYMENT OF FEES

#### Separately Managed Accounts

Acquisition fees generally are payable by clients within 30 days following the closing of each investment. Management fees generally are payable quarterly, in arrears, as of the end of each calendar quarter. Each client selects whether fees are deducted directly from the Account or billed to the client.

Performance-based fees and distributions generally are payable by clients as of 30 to 60 days following the end of the applicable performance period. Each client selects whether performance-based fees and distributions are deducted directly from the Account or billed to the client.

#### The Fund

Management fees generally are payable by investors quarterly, in arrears, as of the end of each calendar quarter. Management fees are debited directly from the capital account associated with each limited partnership unit.

### OTHER FEES AND EXPENSES

#### Separately Managed Accounts

In addition to management fees and, in some instances, performance-based fees or distributions, each Account generally bears its own expenses including, without limitation, (i) all reasonable and necessary third-party and out-of-pocket costs and expenses incurred in connection with the management of a property, (ii) all property and other taxes, (iii) all costs of repairs, maintenance, insurance premiums and other carrying charges with respect to the client properties, (iv) property manager fees with respect to the client properties, (v) legal expenses (subject to certain restrictions), (vi) expenses associated with preliminary tenant space plans and feasibility studies, (vii) finder’s, brokerage, appraisal and accounting fees, (viii) fees of independent third-party contractors, (ix) related

out-of-pocket expenses of our personnel incurred in connection with Account activities pursuant to the annual business plans or are otherwise approved by client, and (x) all other expenses which are incurred by us at the request or with the consent of the client.

#### The Fund

In addition to management fees, the Fund generally bears its own expenses, including, without limitation, (i) all administrative expenses related to the operation of the Fund, including the fees and expenses of accountants, lawyers, third-party administrators and other professionals and service providers incurred in connection with the Partnership's annual audit, data processing, engineering, investment-level management and servicing, drawdown notices, investor record-keeping, legal compliance, financial reporting, legal opinions, tax planning, tax projections, tax strategy and tax return preparation, as well as expenses associated with the preparation and distribution of reports; (ii) all costs and expenses associated with the advisory committee (including travel and other expenses of members of the advisory committee in connection therewith) and costs and expenses of legal counsel and financial advisors for the advisory committee that have been approved in accordance with the partnership agreement; (iii) all fees, costs and expenses, if any, incurred in evaluating, negotiating, structuring, acquiring, appraising, financing, refinancing or otherwise dealing with investments pursued for the Fund (whether or not the Fund actually invests therein), including any "dead-deal" costs, structural and environmental studies, travel costs, legal, due diligence, investment banking, reporting, projections, valuation, tax and accounting expenses and other fees and out-of-pocket costs related thereto (provided that, regarding investments in progress, the foregoing out-of-pocket expenses apply with respect to only those investments and potential investments that have been allocated to the Fund); (iv) all fees, costs and expenses, if any, with respect to rendering financial assistance to or arranging for financing for the Fund, any subsidiary thereof or investments; (v) all fees, costs and expenses, if any, incurred in relation to the acquisition, holding, developing, monitoring, management, appraising, financing, refinancing, disposing of or otherwise dealing with investments, including any travel, legal, audit, financing, appraisal, insurance consulting, brokerage, engineering, environmental, inspection, indemnification and accounting expenses and other fees and out-of-pocket costs related thereto; (vi) interest expenses, making temporary investments, brokerage commissions and other investment costs incurred by or on behalf of the Fund; (vii) all fees, costs and expenses incurred in organizing, forming and maintaining any alternative investment vehicles, feeder funds or parallel funds (except as provided above) (including any legal and accounting expenses and other fees and out-of-pocket costs related thereto) and all fees, costs and expenses incurred in connection with the offering of the units following the initial closing date; (viii) all taxes, fees and other equivalent government charges levied against the Fund, any investment thereof or the income thereof, fees of auditors, counsel and other advisors of the Fund, premium for insurance protecting the Fund, the general partner, us, members of the advisory committee and other indemnified persons and any litigation costs of the Fund; (ix) all indemnification expenses incurred pursuant to the partnership agreement or related to any subsidiary or investment thereof, and any other extraordinary administrative or operating fees or expenses; (x) all costs and expenses of forming any special purpose entity formed in connection with an investment and the costs of maintaining each entity of the Fund; (xi) costs of compliance with applicable laws and regulations of governmental and self regulatory bodies, including, without limitation, costs incurred in complying with laws and regulations that apply to such entities as a result of their services to the Fund; (xii) all other customary expenses; (xiii) all amounts to be contributed or advanced to any investment for the purpose of such entity or investment paying any cost of the type described in the foregoing clauses; and (xiv) the offering and organizational expenses of the Fund, in an amount up to the organizational expense cap.

#### General

All clients are responsible for and pay any custodial fees. Because we generally do not use broker-dealers or other counterparties to execute client transactions, clients generally will not incur brokerage or other transaction costs. **See Item 12 below.**

### **TERMINATION OF ADVISORY SERVICES**

#### Separately Managed Accounts

Clients may terminate investment management agreements at any time upon written notice to us, and we may terminate investment management agreements by providing at least ninety (90) days written notice to clients.

### **WITHDRAWALS/REDEMPTIONS**

### The Fund

Subject to the terms and limitations described in the offering document, each investor in the Fund generally is permitted to make complete or partial redemption of its limited partnership units as of the end of any calendar quarter following the expiration of the applicable lock-up period. The applicable lock-up period is (i) 3 years with respect to Class A and Class B units and (ii) 180 days with respect to Class C units. Notice of any redemption generally must be given to us in writing at least 45 days prior to the proposed redemption date. We will use commercially reasonable efforts to cause at least 90% of any estimated redemption amount to be paid within 35 days of the applicable redemption date. Any remaining balance generally will be settled 35 days following either (i) the end of the following calendar quarter or (ii) the completion of the audit of the fund's financial statements for the applicable fiscal year. For more detail regarding these redemption processes, please refer to the offering document of the Fund.

### **COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

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

### **PERFORMANCE-BASED FEES**

As noted under Item 5 above, we and/or certain of our affiliates may receive performance-based fees or distributions from certain of our clients. Performance-based fees or distributions could motivate us to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. The method of calculating performance-based distributions may result in conflicts of interest with respect to the management and disposition of investments, including the sequence of dispositions. Our individual employees and affiliates who are compensated to some extent based upon investment profits for which they are responsible face the same potential conflict. We address this conflict through full and fair disclosure in the applicable governing, account and/or offering documents and/or this brochure.

### **SIDE-BY-SIDE MANAGEMENT**

We manage accounts for which we are entitled to receive performance-based fees or distributions alongside accounts for which we are not entitled to receive any performance-based fees or distributions. Such side-by-side management could motivate us to favor accounts for which we or our employees or affiliates receive performance-based fees or distributions over other accounts for which such fees are not payable. We attempt to address this conflict by, among other things, adhering to objective allocation policies and procedures and routinely reviewing such allocation policies and procedures and through full and fair disclosure of such conflict in this brochure. **See Item 12 below.**



## Item 7: Types of Clients

### DESCRIPTION

We provide real estate investment management services to the Fund, other investment funds, private institutional clients, employee benefit plans, Taft-Hartley pension plans, public and government funds, endowments and foundations.

### ACCOUNT REQUIREMENTS

#### Separately Managed Accounts

Among other things, Account clients are required to sign investment management agreements that, among other things, set forth the nature and scope of our investment management authority and the investment objectives, guidelines and restrictions applicable to the management of the Accounts. In addition, Account clients generally must meet certain net worth, net asset and/or other eligibility requirements imposed by various securities and commodities laws.

#### The Fund

The minimum initial capital commitment required from an investor in the Fund is \$10,000,000. However, capital commitments of lesser amounts may be accepted in our discretion.

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

### METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

#### Separately Managed Accounts

We seek to create value through skilled portfolio development and active portfolio management, investing in assets through focused strategies that fit each client's risk/return profile. Thorough underwriting, a detailed investment plan for each property, and hands-on asset management help to provide solid income and capture value to ensure that client objectives are met. We implement a team approach in the management of the Accounts. Leading the team, the portfolio manager draws upon our disciplines (research, acquisitions, asset management and property reporting) to ensure superior service and performance. We also follow a disciplined investment process in order to achieve the maximum return at the lowest possible level of risk, according to each client's individual investment parameters.

We employ an extensive array of research, analysis and diligence in connection with the formulation of investment advice and management of assets in the Accounts. We subscribe to numerous third party data sources which are used, together with our own market intelligence, to produce periodic capital market research reports featuring trend analysis and projections covering numerous subjects (such as population and employment trends, housing and consumption trends, and monetary policy), which can influence real estate performance.

We regularly monitor and rank 55 major U.S. markets according to a proprietary methodology utilizing several data inputs including projected employment growth and building activity.

We perform exhaustive financial analysis and thorough physical, market, submarket, and competitive-set due diligence in connection with the acquisition and management of real estate assets. The financial analysis includes, but is not limited to, the construction of multi-year cash flow and return projections, which, in turn, require the compilation of extensive tenant lease information, the compilation of capital requirements and estimation of operating expenses.

Physical due diligence includes (but is not limited to) the commission of engineering, architectural and environmental studies, as well as title and survey legal reviews. Market and sub-market reviews require, among other things, the compilation and review of extensive demographic data.

Ranging from stable, irreplaceable real estate to more aggressive tactical opportunities, our investment strategies vary depending on property type and each client's risk/return profile. With respect to markets, we typically invest in markets with barriers to entry or specific demographic characteristics.

#### The Fund

Our primary investment objective with respect to the Fund is to protect equity and limit downside risk while assembling a portfolio of appropriately priced, institutional quality and income producing core real estate assets. To achieve our investment objective, we implement a core investment strategy that prudently utilizes leverage, with a primary focus on the distribution of cash flow from property operations to the Fund and the investors.

We, among other things:

- seek out property owners motivated to sell quality assets at prices expected to provide the Fund with the desired rate of return, with quantifiable downside risk;
- invest in U.S. markets affording long term sustainable job growth, and avoid investments in markets where employment is prone to excessive volatility because of cyclical and other short term influences; and
- select asset locations using proprietary research and market rankings and superior local market knowledge gained by the first-hand experience of us and our strategic partners.

Funds held by us from time to time pending investment and funds reserved for the payment of fund expenses may be invested in temporary investments.

The Fund generally invests in traditional core property types located in the United States, including multifamily, retail, office and industrial properties.

The investment strategies summarized above are not intended to be comprehensive. For more information regarding our methods of analysis and investment strategies, please carefully review the applicable offering, governing and/or account documents.

## **CERTAIN RISK FACTORS**

*There can be no assurance that clients will achieve their investment objectives or that investments will be successful. Our investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that our investment strategies are low risk or risk free. Our investment strategies are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with our investment strategies and processes and may not necessarily apply to each client. With respect to the Fund, the following risks are qualified in their entirety by the risks set forth in the applicable offering documents.*

**General Economic and Market Conditions.** Changes in general global, regional and U.S. economic and geopolitical conditions will affect our and our client's activities. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by us and our clients or considered for prospective investment. Material changes and fluctuations in the economic environment, particularly of the type experienced following the 2008 global financial crisis that caused significant dislocations, illiquidity and volatility in the wider global economy, may affect our and our clients' ability to make investments and the value of investments held by us and our clients or our and our clients' ability to dispose of investments. The short-term and the longer-term impact of these events are uncertain, but they could continue to have a material effect on general economic conditions, consumer and business confidence and market liquidity. Any economic downturn resulting from a recurrence of such marketplace events and/or continued volatility in the financial markets could adversely affect the financial resources and outlook of our clients and their investments. Additionally, during, and following, the U.S. presidential election in 2016, there has been discussion, dialogue and other action regarding potential significant changes to U.S. trade policies, legislation, treaties and tariffs, including the North American Free Trade Agreement ("NAFTA"), as well as trade policies and tariffs affecting Canada, China, the European Union and other countries. Tariffs and other trade restrictions previously or subsequently imposed by the U.S. and any further similar changes in U.S. trade policy have triggered some, and could trigger additional, retaliatory actions by affected countries, possibly resulting in "trade wars". At this time, it is unknown whether and to what extent new legislation will be passed into law, pending or new regulatory proposals will be adopted, international trade agreements will be negotiated, or the effect that any such action would have, either positively or negatively, on us, our clients or their investments. Investments can also be expected to be sensitive to the performance of the overall economy. Moreover, a serious pandemic, natural disaster, armed conflict, threats of terrorism, terrorist attacks, global pandemics or outbreaks of disease and the impact of military or other action could severely disrupt global, national and/or regional economies. A resulting negative impact on economic fundamentals and consumer and business confidence may also negatively impact market value, increase market volatility and reduce liquidity, all or any of which could have an adverse effect on the performance of our clients' investments, their returns and our clients' ability to make and/or dispose of investments. No assurance can be given as to the effect of these events on us, our clients or their investment objectives.

**Epidemics, Pandemics, and Public Health Issues.** Our business activities as well as our clients and their operations and investments could be materially adversely affected by the outbreaks of disease, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as COVID-19 (and other novel coronaviruses), Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics, pandemics, outbreaks of disease or public health issues. In particular, coronavirus, or COVID-19, has spread and is currently spreading rapidly around the world since its initial emergence in December 2019 and has negatively affected (and may continue to negatively affect or materially impact) the global economy, global equity markets and supply chains (including as a result of quarantines and other government-directed or mandated measures or actions to stop the spread of outbreaks). Although the long-term effects of coronavirus, or COVID-19 (and the actions and measures taken by governments around the world to halt the spread of such virus), cannot currently be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as H5N1, H1N1 and the Spanish flu, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of us and our clients. Should these or other major public

health issues, including pandemics, arise or spread farther (or continue to worsen), we and our clients could be adversely affected by more stringent travel restrictions (such as mandatory quarantines and social distancing), additional limitations on our (or our clients') operations and business activities and governmental actions limiting the movement of people and goods between regions and other activities or operations.

*Geopolitical Risks.* An unstable geopolitical climate and continued threats of terrorism could have a material effect on general economic conditions, market conditions and market liquidity. The continued threat of terrorism and the impact of military or other action have led to and will likely lead to increased volatility in prices for oil and gasoline and could affect certain investments financial results. Further, the United States government has issued public warnings indicating that energy assets might be specific targets of terrorist organizations. As a result of such a terrorist attack or of terrorist activities in general, such investments may not be able to obtain insurance coverage and other endorsements at commercially reasonable prices or at all. Additionally, a serious pandemic or a natural disaster could severely disrupt the global, national and/or regional economies. A resulting negative impact on economic fundamentals and consumer confidence may increase the risk of default with respect to particular investments of our clients, negatively impact market value, increase market volatility and cause credit spreads to widen and reduce liquidity, all of which could have an adverse effect on our clients' returns and ability to make new investments. No assurance can be given as to the effect of these events on the value of or markets for investments.

*Governmental Intervention.* In 2008, the global financial markets underwent disruptions that led to certain governmental intervention. The coronavirus (COVID-19) pandemic of 2020 has also led and will likely continue to lead to substantial governmental intervention (both in the United States and abroad). Such intervention, in certain cases, was or is being implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions were or are typically unclear in scope and application, resulting in confusion and uncertainty which in itself can be materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies. If governmental intervention programs are unwound, there could likewise be uncertainty and adverse effects on the markets. In the case of any future market disruptions, it is impossible to predict what interim or permanent governmental restrictions (or easing of restrictions) may be imposed on the markets or the effect of such restrictions on our or our clients' investment strategies.

*General Investment Risks.* All investments risk the loss of capital. No guarantee or representation is made that our investment strategies will be successful or profitable. Real estate investments are subject to various specific risks, many of which are beyond our control, such as adverse changes in international, national or local economic and demographic conditions; local conditions (such as an oversupply of space or a reduction in demand for space); the quality and philosophy of management; competition based on rental rates; adverse changes in financial conditions of tenants, buyers and sellers of properties; quality of maintenance, insurance and management services; reduction or change in sources of debt or equity financing, including changes in interest rates; increases in real estate taxes and operating expenses, including energy prices; changes in law, regulations and governmental policies, including environmental laws, health and safety laws, zoning laws and governmental fiscal policies; potential liability under changing environmental and other laws; changes in the relative marketability of properties; cyclical over-building in property sectors; risks due to dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; structural or property latent defects; natural and unnatural disasters; acts of terrorism and vandalism; uninsurable losses; condemnations and others. As a result, a client may be subject to claims and expenses in respect of an asset in excess of its investment in such asset, which could lead to losses.

Many of the foregoing factors could cause fluctuations in occupancy rates, rent schedules or operating expenses, causing a negative effect on the value of properties and returns derived from real estate investments. Valuation of properties will generally be a matter of an independent appraiser's opinion, and may fluctuate up or down over time. Accordingly, the capital value of a real estate investment may be significantly diminished in the event of a sudden downward turn in the market value of properties owned by our clients or the occurrence of any of the factors set forth above.

*Adverse Economic Conditions in Geographic Markets.* We may make investments in retail, multifamily, office, industrial properties or single family dwellings that are located in gateway cities, lifestyle destinations and university housing markets. The economic performance of our properties could be affected by changes in local economic conditions. Our performance is therefore linked to economic conditions in areas where we intend to acquire properties and in the real estate market generally. Therefore, to the extent that there are adverse economic conditions in an area and in the real estate market generally that impact the market rents, such conditions could result in a

reduction of income and adversely affect the investment results of our clients.

*Expiration or Lack of Credit Enhancements.* A lease may have credit enhancement provisions, such as guarantees or shortfall reserves provided by a third-party tenant or operator. These credit enhancement provisions may terminate at either a specific time during the lease term or once net operating income of the property exceeds a specified amount. These provisions also may have limits on the overall amount of the credit enhancement. After the termination of a credit enhancement, or if the maximum limit of a credit enhancement is reached, we or underlying real estate investments may look only to the tenant to make lease payments. If a credit enhancement has expired or the maximum limit has been reached, or if a provider of a credit enhancement is unable to meet its obligations, results of operations could be directly or indirectly adversely affected if such properties are unable to generate sufficient funds from operations to meet minimum rent payments and the tenants do not otherwise have the resources to make the rent payments. In addition, some leases may not have any credit enhancements, so that we may look only to the tenant to make lease payments during the entire term of the lease.

*Restrictive Covenants.* In connection with obtaining certain financing, a lender may impose certain restrictions on us or our clients which may affect our ability to incur debt and, thus, adversely affect the investment results of our clients. Loan documents that we enter into may contain negative covenants that limit our ability to further mortgage the property or impose other limitations.

*Failure to Make Debt Payments.* Loans obtained to fund property acquisitions generally are secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing such debt. This could cause us to lose part or all of a client's investment. Certain of our future indebtedness may be cross-collateralized. Consequently, a default on this indebtedness could cause us to lose part or all of a client's investment in multiple properties.

*Lack of Control over Entities in which we Invest.* As a general practice, we intend to reserve certain management and development rights in each entity through which we make investments. On occasion, we may invest in an entity that we do not control. As a result, in these limited situations, we may not be able to control the decisions made by such entities. The entities holding investments may therefore make decisions that could be adverse to us or our clients. Such investments may also have potential risks of impasse on major decisions, such as sales or mergers, because neither we nor our clients would have full control over the partnership, limited liability company or other entity. In addition, any investment in an entity with co-owners may, under certain circumstances, involve risks not present were a co-owner not involved, including the possibility that partners or other co-owners might become bankrupt or fail to fund their share of required capital contributions. Partners or other co-owners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our or our clients' policies or objectives. Disputes between us and our partners or other co-owners may result in litigation or arbitration that would increase expenses and prevent us from focusing our time and effort on our business. Consequently, actions by or disputes with partners or other co-owners might result in subjecting facilities to additional risk. The occurrence of any of the foregoing events could have a material adverse effect on our results of operations and may adversely affect the investment results of our clients.

*Competition.* Our business is highly competitive and we may be unable to compete successfully. We compete for development opportunities and opportunities to purchase properties with, among others:

- private investors;
- pension funds;
- insurance company investment accounts;
- real estate investment trusts;
- real estate partnerships;
- financial institutions; and
- local developers.

Many of these competitors have substantially greater financial and other resources than we have and may have better relationships with developers and sellers. Additionally, these competitors may enjoy significant advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Moreover, the number of entities and the amount of funds competing for suitable investment properties may increase. However, increased competition from competitors may adversely affect our ability to acquire investment properties, as well as the price that we pay for properties.

We may invest directly or indirectly in retail, multifamily, office, industrial and single family properties located in gateway cities, lifestyle destinations and university housing markets. Therefore, there are numerous other properties, within the respective market areas of each of our properties, that compete with our properties and that compete with us for tenants. The number of competitive properties could have a material effect on our ability to rent space at our properties and the amount of rents charged. We could be adversely affected if additional competitive properties are built in locations competitive with our properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require us to make capital improvements to properties which we would not have otherwise made, thus affecting the investment results of our clients.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of our clients' investments may decline. For example, a substantial rise in inflation could reduce the value of our clients' investments subject to leases if the inflation rate is high enough that percentage rent and automatic increases in base rent do not keep up with inflation.

*Tax Law Developments.* In December 2017, a significant reform of the U.S. Internal Revenue Code of 1986, as amended (the "Tax Code"), was signed into law (the "Tax Act"). There are significant uncertainties regarding the interpretation and application of the Tax Act. Among the numerous changes included in the Tax Act are (i) a reduction to the corporate income tax rate, (ii) new limitations on the utilization of net operating losses, (iii) partial limitations on the deductibility of business interest expense, (iv) a partial shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with a transitional rule which taxes certain historic accumulated earnings and rules which prevent tax planning strategies which shift profits to low tax jurisdictions), and (v) a suspension of certain miscellaneous itemized deductions, including deductions for investment fees and expenses, until 2026. While additional guidance on the Tax Act is expected, the timing, scope and content of such guidance are not known. Changes to the Tax Code made by the Tax Act and any further changes in tax laws or interpretation of such laws may be adverse to advisory clients and/or investors in a Fund.

The Tax Act subjects allocations of income and gain in respect of entitlements to carried interest and gain on the sales of profits interests in certain partnerships realized in taxable years beginning after 2017 to higher rates of U.S. federal income tax than under prior law in certain circumstances. Significant uncertainties remain regarding the application of the provisions of the Tax Act that affect the taxation of carried interest. Enactment of this legislation could cause our investment professionals to incur a material increase in their tax liability with respect to their entitlement to carried interest. In addition, other countries could clarify or modify their tax treatment of carried interest. This might make it more difficult for us to incentivize, attract and retain these professionals, which may have an adverse effect on our ability to achieve the investment objectives of our clients. In addition, this can create a conflict of interest as our tax position may differ from the tax positions of our clients and/or investors in the Funds and therefore, these rules may have an additional impact on the investment decisions made by our clients, including with respect to decisions on the timing and structure of dispositions and whether to pursue other realization events during the holding period of an investment such as non-liquidating distributions. For example, the Tax Act gives us an incentive to cause a client to hold an investment for longer than three years in order to obtain lower tax rates on carried interest gains even if there are attractive realization opportunities earlier than three years.

*Construction Risks.* We may invest directly or indirectly in existing or newly constructed properties. We may invest in properties that are subject to completion of construction and development. If we acquire a property for development or renovation, it may be subject to risks in connection with a developer's ability to control construction costs and the timing of completion of construction or a developer's ability to build in conformity with plans, specifications and timetables. In addition, development and renovation plans could be affected by delays in obtaining any necessary permits or consents from appropriate governmental agencies, strikes, adverse weather, shortages of materials and increases in the cost of labor and materials. Although we typically seek to include in agreements with developers safeguards designed to minimize these risks, such as rights to require the tenant to purchase the property that is under development at a pre-established price designed to reimburse us for all acquisition and development costs, we cannot be sure that the tenants will have sufficient funds to fulfill their obligations under these agreements. The builder's failure to perform may result in tenants terminating leases. These actions may increase our costs or necessitate legal action by us to rescind the purchase of a property, to compel performance, or to sue for damages. Any such legal action may result in increased costs to us and our clients.

In addition, certain properties that we acquire, directly or indirectly, may be subject to conservatory easements that

prohibit the development of certain activities other than those specific activities already conducted on the property, and limit the ability to materially modify the existing layouts on the property.

Our clients, entities unaffiliated with us, or affiliated underlying entities may enter into guaranteed maximum price contracts with developers for the development of new construction properties. Such contracts involve counterparty risk since developers may not perform their contractual obligations in accordance with the terms of such contracts. In addition, such contracts may not be insured by surety bonds or guarantees, which would protect such entities in the event of loss or casualty. Without such protection, in the event of loss or casualty, such entities could lose their investments in such new construction properties.

*Brexit.* On June 23, 2016, the United Kingdom (the “UK”) held a referendum and voted to withdraw as a member of the European Union (the “EU”) and a party to the Treaty on European Union and its successor treaties. On March 29, 2017, the UK delivered a letter to the EU invoking the applicable withdrawal procedures. While the UK officially withdrew as a member of the EU on January 31, 2020, it remains in a transition period during which the UK will generally continue to operate under EU rules while it continues to negotiate certain terms with respect to its withdrawal and the details regarding the ultimate outcome of the relationship between the UK and EU (and the UK and the rest of the world). Although the transition period is set to end on December 31, 2020, such period may be extended and the uncertainties surrounding the new relationship between the UK and the EU are likely to remain unknown for an extended period of time. The outcome of the referendum and the subsequent process and negotiation with respect to the UK’s withdrawal have caused significant volatility in global financial markets and uncertainty about the integrity and functioning of the EU, both of which may persist for an extended period of time. Areas where the uncertainty created by the UK’s withdrawal from the EU are relevant include, but are not limited to, trade within Europe, foreign direct investment in Europe, the scope and functioning of European regulatory frameworks (including with respect to the Alternative Investment Fund Managers Directive and the European Union Markets in Financial Instruments Directive), industrial policy pursued within European countries, immigration policy pursued within European countries, the regulation of the provision of financial services within and to persons in Europe and trade policy within European countries and internationally. The volatility and uncertainty caused by the withdrawal and any other referendums may adversely affect the value of investments and our ability to achieve investment objectives.

### **Risks Related to Real Estate Investments**

*Real Estate Liquidation Risk.* Real estate is an illiquid investment. We may not be able to readily dispose of a real estate asset or have the ability to react quickly to changing investment circumstances due to market conditions that could affect the market price of the property, thereby adversely affecting our clients. Furthermore, we may not have the authority to cause an entity through which we have made an investment to sell or refinance a real estate property or to refrain from selling or refinancing a real estate property.

*Market and Business Conditions.* Changes in general or local economic or market conditions, state or local statutes, state or local taxation, litigation, increased energy costs, insurance costs, product costs and labor costs, competitive factors, fuel or labor shortages, quality of management, the ability of a chain or franchisor(s) to fulfill any obligations to operators of its businesses, limited alternative uses for a building, changing consumer habits, condemnation or uninsured losses, changing demographics, changing traffic patterns, inability to remodel outmoded buildings as required by the franchise or lease agreement, voluntary termination by a tenant of its obligations under a lease, bankruptcy of a tenant, and other factors beyond our or the underlying investment properties’ control, may reduce the value of investments, the ability of tenants to pay rent on a timely basis, the amount of the rent and the ability of borrowers to make mortgage loan payments on time. If tenants are unable to make lease payments as a result of any of these factors, our clients’ profitability will likely be reduced.

Additionally, properties securing mortgages that are owned by our clients may decrease in value from the date when the mortgage loan was made and the creditworthiness of the mortgagee may decrease. Therefore, investment risk will increase due to decreasing market values.

*Properties with Limited Operating History.* Newly-developed or newly-renovated properties do not have the operating history that allows us to make objective pricing decisions in acquisitions. The purchase prices of these properties are oftentimes based upon projections by us as to the expected operating results of such properties, subjecting us to risks that such properties may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

*Risks Related to Debt Investments.* We may recommend investments in debt investments, including construction,

participating and other real estate-related loans (collectively, "Debt Investments"). The value of the Debt Investments and the ability to realize full repayment on any Debt Investment may be adversely affected by all of the factors that affect an investment. In particular, certain important risks associated with Debt Investments include, among others: (a) dependency for repayment on successful operation of the underlying property and tenant businesses operating thereon; (b) the non-recourse nature of such loans with respect to the borrower; and (c) amortization schedules that are often longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments.

Debt Investments are also subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not generally covered by standard hazard insurance. In the event of any default under mortgage loans held, directly or indirectly, by a client or any entity in which a client has an interest, that client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal amount of the mortgage loan and may not receive interest payments on such mortgage loan. Foreclosures of mortgage loan, bankruptcies affecting mortgage loan borrowers and other collateral realization processes will be expensive and lengthy processes that could have a substantial negative effect on our client's anticipated return on investment.

*Payments from Tenants.* The success of our investment strategies oftentimes depends on rent payments from property tenants to generate returns and cash for our clients. We have no control over the success or failure of our tenants' businesses. Significant adverse changes in the operations of any facility, or the financial condition of any tenant, could have a material adverse effect on our ability to collect rent payments and, accordingly, on the investment results of our clients. Failure on the part of a tenant to comply materially with the terms of a lease could give us the right to terminate the lease with that tenant, repossess the applicable facility and enforce the payment obligations under the lease. However, we then would be required to find another tenant. We cannot assure you that we would be able to find another tenant in a timely fashion, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable terms. If we are unable to re-let the properties, then we may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by the purchasers. Moreover, the bankruptcy of any of our tenants could delay our efforts to collect past due balances under our leases, and could ultimately preclude collection of amounts due to us. The occurrence of any of the foregoing events may adversely affect the timing of and the investment results of our clients.

*Increases in Insurance Premiums.* Insurance may be available at premium rates that are significantly higher than the rates similar properties have paid in the past. We anticipate the ability to pass on higher insurance costs to our tenants. In addition, when we sell investments, any potential buyer will factor into its purchase price the expected cost of insurance. To the extent that insurance premiums are high, we may not be able to sell investments at the expected price, or at all if insurance cannot be obtained for the property.

*Lease Terminations.* We are subject to the normal risks associated with leasing property, including the risk that upon the expiration of leases for space located in the properties, the leases may not be renewed, the space may not be re-let or the terms of renewal or leasing (including any cost of required renovations or concessions to tenants) may be less favorable than current lease terms. If we are unable promptly to re-let or renew leases for a significant portion of its space or if the rental rates upon renewal or re-letting are significantly lower than expected rates, then our earnings and the investment results of our clients may be adversely affected. Vacancies may not be able to be filled in a timely manner or on acceptable contract terms.

*Inability to Re-lease Property.* A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing.

*Inability to Sell Property.* The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser will be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

*Special Purpose Properties.* Certain properties may not be readily adaptable to other uses such as general residential, retail or office use. Therefore, if a property becomes unprofitable for its operator due to competition, age or improvements or other factors such that the tenant becomes unable to meet its obligations under the lease, the



liquidation value of the property may be substantially less than if the property were readily adaptable to other uses. The receipt of liquidation proceeds could be delayed by the approval process of any state agency necessary for the transfer of the property.

*Environmental Risks.* Under various federal and state environmental laws and regulations, owners and operators of real estate may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum products released at our properties. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. The presence of contamination or the failure to remediate contaminations at any such properties may adversely affect our ability to sell or lease the properties or to borrow using the properties as collateral. Furthermore, a person that arranges for the disposal or transports for disposal or treatment a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect our ability to sell such real estate or to borrow using such real estate as collateral.

Environmental liabilities that may be incurred, directly or indirectly, could have an adverse effect on our financial condition or results of operations and thereby adversely affect the investment results of our clients.

We typically expect to obtain Phase I environmental assessments on all of properties prior to acquisition. Phase I environmental assessments are intended to identify potential environmental contamination for which properties may be responsible. Phase I environmental assessments include historical reviews of the properties, reviews of certain public records, preliminary investigations of the sites and surrounding properties, screening for the presence of hazardous substances, toxic substances and underground storage tanks, and the preparation and issuance of a written report. Phase I environmental assessments do not include invasive procedures, such as soil sampling or ground water analysis. Thus, these environmental assessments may not reveal all environmental liabilities and there may be material environmental liabilities of which we are unaware.

*Capital Expenditures for Property Renovation.* Properties, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures, and equipment. Under the terms of certain of leases, we or our clients may be obligated to pay the cost of expenditures for items that are necessary for the continued operation of our properties and that are classified under generally accepted accounting principles as capital items. If these capital expenditures exceed estimates, the additional costs could have an adverse effect on us or our clients. In addition, we may acquire properties in the future that require significant renovation. Renovation of properties involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from properties.

*Property Tax Increases.* Properties may be subject to real and personal property taxes that increase as property tax rates change and as the facilities are assessed or reassessed by taxing authorities. Leases generally provide that the property taxes are charged to tenants as an expense related to the facilities that they occupy. As the owner of the facilities, however, we or our clients are ultimately responsible for payment of the taxes to the government. If property taxes increase, tenants may be unable to make the required tax payments, ultimately requiring our clients to pay the taxes.

*Reduction in Funds Available for Future Acquisitions.* Any property is subject to operating risks common to real estate in general, any or all of which may negatively affect us and our clients. If a property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, our clients could be required to expend funds with respect to that property for operating expenses. Properties are subject to increased utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses. While some of our properties may require tenants to pay a portion of such expenses, some may not be negotiated on that basis, in which event our clients may have to pay those costs. If we are unable to lease properties on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, clients could be required to pay those costs.

*Inability to Obtain Adequate Financing.* If an underlying real estate property intends to obtain one or more lines of credit and long-term permanent financing, it cannot be sure that it will be able to obtain a line of credit or any long-term permanent financing on satisfactory terms.

*Financing to Purchasers.* If we decide to sell an investment, we intend to use reasonable efforts to sell them for cash. However, in some instances we or a client may sell an investment by providing financing to purchasers. If we or a client provide financing to purchasers, then we or such client will bear the risk that the purchaser may default, which could result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

### **Risks Related to Retail Properties**

*Retail Industry.* Retail properties, in general, are affected by the health of the retail industry. In addition, a retail property may be adversely affected by the bankruptcy or decline in drawing power of an anchor tenant, the risk that an anchor tenant may vacate notwithstanding that tenant's continuing obligation to pay rent, a shift in consumer demand due to demographic changes (e.g., population decreases or changes in average age or income) and/or changes in consumer preference (e.g., to discount retailers).

*Consumer Preferences and Demographics.* Changes in consumer preferences and market demographics may adversely affect the value and cash flow from retail properties, particularly properties with a specialty retail focus. Clients may experience losses due to these changes. Retail properties are particularly vulnerable to changes in consumer preferences and market demographics that may relate to:

- changes in consumer spending patterns;
- local competitive conditions, such as an increased supply of retail space or the construction of other retail centers;
- the attractiveness of the properties and the surrounding neighborhood to tenants and their customers;
- public perception of the safety of the neighborhood; and
- the need to make major repairs or improvements to satisfy major tenants.

*Retailer's Financial Condition.* Properties are subject to competition from similar retail centers within their respective market areas. Other retail centers compete with our tenants' properties for customers. This will affect tenants' cash flows and thus will affect their ability to pay rent. In addition, some rent payments may be based on the amount of sales revenue generated by tenants. If these tenants experience competition, the amount of their rent may decrease and our client's cash flow may decrease.

A significant tenant of a single retail center or a significant tenant that occupies space at multiple retail centers, may become insolvent, may suffer a downturn in business, or may decide not to renew its lease. Any of these events would result in a reduction or cessation in rental payments and would adversely affect our clients' investments.

*Lease Terminations by Anchor Tenant.* Generally, any tenant occupying a large portion of the gross leasable area of a retail center is referred to as an anchor tenant. A lease termination by an anchor tenant could result in lease terminations or reductions in rent by other tenants whose leases permit cancellation or rent reduction if an anchor tenant's lease is terminated. In certain properties where there are large tenants, other tenants may require that if certain large tenants or "shadow" tenants discontinue operations, a right of termination or reduced rent may exist. In such event, we may be unable to re-lease the vacated space. Similarly, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could cause customer traffic in the retail center to decrease and thereby reduce the income generated by that retail center. A transfer lease to a new anchor tenant could also allow other tenants to make reduced rental payments or to terminate their leases at the retail center. If we are unable to re-lease the vacated space to a new anchor tenant, clients may incur additional expenses in order to remodel the space to be able to re-lease the space to more than one tenant.

*Competition from Alternative Retail Distribution Channels.* Unlike other income producing properties, retail properties also face competition from sources outside a given real estate market, such as catalogue retailers, home shopping networks, the internet, telemarketing, and outlet centers. These alternative retail outlets are often characterized by lower operating costs. The continued growth of these alternative retail outlets could adversely affect the rents collectible at our retail properties.

*Effect of Market Conditions on Retail Leases.* Some component of the total rent paid by retail tenants may be tied to a percentage of the retailer's gross sales. As a result, the correlation between the success of tenant businesses and property value is more direct for retail properties than other types of commercial property. Some leases may provide for base rent plus contractual base rent increases. Some leases may also include a percentage rent clause for additional rent above the base amount based upon a specified percentage of the sales tenants generate. Under those

leases which contain percentage rent clauses, revenue from tenants may increase as the sales of tenants increase. Generally, retailers face declining revenues during downturns in the economy. As a result, the portion of client revenue from percentage rent leases could decline upon a general economic downturn.

*Restrictions from Re-Leasing Space.* In many cases, tenant leases contain provisions giving the tenant the exclusive right to sell particular types of merchandise or provide specific types of services within the particular retail center, or limit the ability of other tenants to sell such merchandise or provide such services. When re-leasing space after a vacancy is required, these provisions may limit the number and types of prospective tenants for the vacant space. The failure to re-lease or to re-lease on satisfactory terms could result in a reduction of net income and could adversely affect the investment results of our clients.

### **Risks Related to Multifamily Properties**

*Factors Affecting Occupancy and Rent Levels.* Multifamily projects are part of a market that, in general, is characterized by low barriers to entry. Thus, a particular apartment market with historically low vacancies could experience substantial new construction and a resultant oversupply of units in a relatively short period of time. Adverse economic conditions, either local, regional or national, may limit the amount of rent that we may charge for rental units, and may result in a reduction in timely rent payments or a reduction in occupancy levels. Occupancy and rent levels may also be affected by:

- local, regional or national economic conditions, which may limit the amount of rent that can be charged for rental units or result in a reduction in timely rent payments;
- construction of additional housing units in the same market;
- local military base or industrial/business closings;
- developments at local colleges and universities;
- national, regional and local politics, including, in the case of multifamily rental properties, current or future rent stabilization and rent control laws and agreements;
- trends in the senior housing market;
- the location of the property (*e.g.*, a change in the neighborhood over time);
- the ability of management to provide adequate maintenance and insurance;
- the types of services and amenities that the property provides;
- the physical attributes of the apartment building (*e.g.*, its age, appearance and construction quality);
- the property's reputation;
- the tenant mix, such as the tenant population being predominantly students or being heavily dependent on workers from a particular business or personnel from a local military base;
- dependence upon governmental programs that provide rent subsidies to tenants pursuant to tenant voucher programs or tax credits to developers to provide certain types of development;
- the presence of competing properties;
- state or local regulations; and
- the level of mortgage interest rates, which may encourage tenants in multifamily rental properties to purchase housing.

*Shorter Lease Periods.* Multifamily apartment units are typically leased on a short term basis, and the tenants who reside in a particular project within such a market may easily move to alternative projects with more desirable amenities or locations.

*Government Programs.* Multifamily projects may be subject to various tax credit, city, state and federal housing subsidies, rent stabilization or similar programs. The limitations and restrictions imposed by these programs could result in less income from the multifamily properties. These limitations and restrictions may include:

- rent limitations that could adversely affect our ability to increase rents to maintain the condition of the properties and satisfy operating expenses; and
- tenant income restrictions that may reduce the number of eligible tenants in these properties and result in a reduction in occupancy rates.

The differences in rents between subsidized or supported properties and other multifamily rental properties in the same area may not be a sufficient economic incentive for some eligible tenants to reside at a subsidized or supported property that may have fewer amenities or be less attractive as a residence. As a result, occupancy levels at a

subsidized or supported property may decline, which may adversely affect the value and successful operation of such property.

### **Risks Related to Office Properties**

*Dependence on Local Economy.* The local economy and the financial condition of the owner will impact an office building's ability to attract stable tenants on a consistent basis. Additionally, a company's decision to locate its office headquarters in a given area may be affected by such factors as labor cost and quality, tax environment and quality of life issues such as schools and cultural amenities. The success of office buildings depends upon the local economies of applicable markets. Clients may be susceptible to adverse developments in the local economies of applicable markets (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increased utility costs, changes in state and local laws, changing demographics, increased telecommuting, terrorist targeting of high-rise structures, infrastructure quality, state budgetary constraints and priorities, increases in real estate and other taxes, costs of complying with government regulations or increased regulation and other factors) and the national and regional office space market (such as oversupply of or reduced demand for office space).

*Competition.* Competition from other office properties in the same market could decrease occupancy or rental rates at office properties. Decreased occupancy could result in realized losses for our clients. Competition is affected by a property's:

- age;
- condition;
- design (e.g., floor sizes and layout);
- access to transportation; and
- ability or inability to offer certain amenities to its tenants, including sophisticated building systems (such as fiber optic cables, satellite communications or other base building technological features).

We compete with numerous developers, owners and operators of office and commercial real estate, many of which own similar properties in the same submarkets in which client properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates in order to retain tenants.

*Economic Decline.* A number of economic and demographic factors may adversely affect the value of office properties, including:

- the quality of an office building's tenants;
- the physical attributes of the building in relation to competing buildings;
- the desirability of the area as a business location;
- the strength, stability and nature of the local economy;
- access to transportation;
- the availability of tax benefits;
- the strength and stability of businesses operated by the tenant or tenants; and
- the cost of refitting office space for a new tenant, which is often significantly higher than the cost of refitting other types of properties for new tenants.

An economic decline in the businesses operated by the tenants of office properties may increase the likelihood that a tenant may be unable to pay its rent, which could result in realized losses for clients. That risk is increased if revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

*Dependence on Significant Tenants.* Tenants may experience a downturn in their businesses, which may weaken their financial condition, result in their failure to make timely rental payments or their default under their leases. In the event of any tenant default, clients may experience delays in enforcing their rights and may incur substantial costs in protecting their investments.

*Inability to Complete Renovated Properties.* We may renovate office properties. Future development and construction activities involve the following significant risks:

- inability to obtain construction financing at all or on favorable terms;
- inability to obtain permanent financing at all or on advantageous terms if we finance development projects through construction loans;

- inability to complete development projects on schedule or within budgeted amounts;
- delays or refusals in obtaining all necessary zoning, land use, building, occupancy, and other required governmental permits and authorizations; and
- fluctuating occupancy rates and rents at newly developed or renovated properties.

### **Risks Related to Industrial Properties**

*Site Characteristics.* Site characteristics at industrial properties may impose restrictions that could cause realized losses. Aspects of building site design and adaptability also affect the value of an industrial property. Site characteristics which affect the value of an industrial property include:

- clear heights;
- column spacing;
- number of bays and bay depths;
- truck turning radius;
- divisibility;
- zoning restrictions; and
- overall functionality and accessibility.

Other significant factors determining the value of industrial properties include:

- the quality of tenants;
- building design and adaptability; and
- the location of the property.

Concerns about the quality of tenants, particularly major tenants, are similar in both office properties and industrial properties. Industrial properties, however, are more frequently dependent on a single tenant. Location is also important because an industrial property requires the availability of labor sources, proximity to supply sources and customers and accessibility to rail lines, major roadways and other distribution channels.

*Economic Decline.* Industrial properties may be adversely affected by reduced demand for industrial space occasioned by a decline in a particular industry segment (e.g., a decline in defense spending), and a particular industrial property that suited the needs of its original tenant may be difficult to re-let to another tenant or may become functionally obsolete relative to newer properties. These risks are similar to those of tenants of office properties.

*Environmental Risks.* Properties used for industrial purposes are more prone to environmental concerns than other property types.

### **Risks Related to Single Family Properties**

*Condominium Risks.* Condominiums may create unique risks that are not present in other commercial properties. For example, in the event of a casualty with respect to the subject real property, due to the possible existence of multiple loss payees on any insurance policy covering such real property, there could be a delay in the restoration of the real property and/or the allocation of related insurance proceeds, if any.

*Loan Defaults.* Defaults on such loans may reduce the value of a client's investment portfolio. While holding these loans, clients are subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under mortgage loans held by our clients, they will bear the risk of loss of principal and non-payment of interest and fees to the extent they are unable to sell or refinance the underlying property providing for mortgage collateral for an amount equal to the amount of the unpaid obligation. In addition, attempts to foreclose on the underlying property are often subject to legal impediments, including borrower bankruptcies, which could substantially delay the ability to sell the property. If a borrower does not repay its mortgage loan, clients will incur legal and other costs related to any foreclosure or attempted enforcement of a guaranty, which costs may adversely impact their investment results. Delays in the sale of property could affect the price clients ultimately receive and during that period clients may not be receiving any revenue from the property or the related mortgage loan. The longer clients are required to hold the property, the greater the impact on revenues.

*Development Loans.* Development loans are subject to the risk that the dwelling is not completed, or that the completed dwelling is not sold, prior to the maturity of the loan. In either case, if the borrower ultimately defaults on

the loan, clients may be required to find another contractor to complete the project and/or sell the finished project. If clients are unable to complete the project or sell the completed project, they could lose a substantial portion of the principal of the applicable loan.

*Decreases in the Value of Mortgaged Property.* Mortgage loans generally are secured by underlying real property interests. To the extent that the value of the property underlying the mortgage loans decreases, our clients' security might be impaired, which might decrease the value of their assets.

*Interest Rate Fluctuations.* Interest rate fluctuations may adversely affect the value of the loans we hold. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

*Prior Liens.* The property securing an investment may be subject to prior security interests or liens securing payment of other obligations which are or may become superior to a client's interest. An overall decline in the real estate market could reduce the value of the real property securing such loans such that the aggregate outstanding balances of the second-lien loan and the more senior loan on the real property exceed the value of the real property. If defaults occur on superior encumbrances, clients may lose their security interests in the property through foreclosure of the superior encumbrances and may, in order to preserve their secured interest, have to pay the periodic installments due to the superior encumbrance in order to prevent foreclosure of the superior encumbrance. In some cases, clients may be required to pay a superior encumbrance in its entirety.

*Usury Statutes.* Loans will be structured so as to comply with any applicable state usury laws, which may limit the total return available on these investments.

### **Risks Related to University Housing Markets**

*Pre-Development Costs.* University systems and educational institutions may award us development services contracts on the basis of a competitive award process, but such contracts are typically executed following the formal approval of the transaction by the institution's governing body. In the intervening period, clients may incur significant pre-development and other costs in the expectation that the development services contract will be executed. If an institution's governing body does not ultimately approve our selection and the terms of the pending development contract, clients may not be able to recoup these costs from the institution and the resulting losses could be material.

*Student Housing Risks.* In addition to other multifamily property risks, student housing risks include:

- local oversupply, increased competition or reduction in demand for student housing;
- increased influence of economic, social, governmental and demographic factors as they relate to the number of students attending colleges and universities in need of student housing;
- reliance upon the well-being of the colleges or universities to which the facilities relate;
- decreases in student enrollment at particular colleges and universities;
- student housing facilities are subject to competition from colleges and universities as well as other providers of student housing and physical layouts may not be readily convertible to traditional multifamily use;
- maintenance and insurance costs of student housing can exceed the typical costs of other multifamily housing;
- tenants or sub-tenants are individuals who often have little or no credit history, may not have parental guarantees and are not tied to the local community; and
- turnover of tenants or sub-tenants can be significant and student housing is less utilized or subject to reduced rents during summer months.

*Cyber Security Breaches and Identity Theft.* We, our clients and our respective service providers depend on information technology systems and, notwithstanding the diligence that we may perform on such service providers, we may not be in a position to verify the risks or reliability of such information technology systems. We, our clients and our respective service providers are subject to risks associated with a breach in cybersecurity. "Cybersecurity" is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. Our, our clients' and our service providers' information and technology systems are vulnerable to damage or interruption from

computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although we and our affiliates have implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, we and/or our clients may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our and our clients' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm our or our clients' reputations, subject any such entity and its respective affiliates to legal claims and otherwise affect its business and financial performance. Such damage or interruptions to information technology systems may cause losses to our clients or individual Investors by interfering with our or any affiliates' operations. Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose one or more of our clients or us to civil, legal or regulatory liability as well as regulatory inquiry and/or action, and clients may be required to indemnify us against any losses incurred in connection therewith. Cybersecurity issues and risks are currently a major focus area of the SEC and other regulatory authorities.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT STRATEGIES. PROSPECTIVE CLIENTS AND INVESTORS SHOULD READ THIS BROCHURE AND ALL OTHER APPLICABLE DISCLOSURE MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.**

### **Item 9: Disciplinary Information**

Not applicable.



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

We maintain, through a written Memorandum of Understanding, an informal relationship with Mayfair Capital Investment Management Limited, London, U.K. (“Mayfair”), the purpose of which is to establish a platform by which we and Mayfair may provide each other’s clients information about, and access to, investment opportunities in our respective countries. Should one of our respective clients choose to make an investment which may require any services, advice or administration by the other firm, we may, upon prior notice to and with the consent of the client, share certain management and/or transaction fees received by us or Mayfair. We negotiate such fee sharing arrangements on a case by case basis with Mayfair. Nevertheless, each client will enter into a contractual relationship only with its own adviser, and such arrangements will not result in the imposition of any additional fees or costs to the client.

We procure property and casualty insurance for the real estate assets we manage through well-established insurance brokerage firms, selected based on, among other things, the cost of such services, familiarity with commercial real estate insurance requirements, access to insurance markets, and competence and capacity with respect to the management of claims and other administrative tasks. We currently utilize McGriff, Seibels & Williams of Texas, Inc. to provide insurance brokerage and claims management services. We may utilize other insurance brokerage firms at any time and from time to time without the consent of, or notice to, clients.

One of our affiliates, L&B Core Income Partners GP, L.P., serves as general partner to the Fund. Nevertheless, all investment management functions are provided to the Fund by us.

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

### **CODE OF ETHICS**

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our employees. Our code of ethics is primarily designed to educate employees about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage employees to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse, and address conflicts of interest that arise from personal trading by our employees. Among other things, we impose restrictions on all employees and principals relating to the purchase or sale of real estate interests and certain securities for their own accounts and the accounts of certain affiliated persons. Our code of ethics requires pre-clearance of all real estate interest transactions other than the purchase or sale of a residence, a second or vacation home and publicly traded securities. In addition, our code of ethics requires that all employees submit quarterly reports disclosing personal securities transactions in reportable securities and annual reports disclosing personal holdings of reportable securities. Such reports are reviewed by appropriate supervisory personnel. Further, we maintain certain policies and procedures designed to prevent employees and principals from misusing material non-public information and trading the same security ahead of advisory clients. We will furnish a copy of our code of ethics to clients and investors upon request.

### **PERSONAL TRADING AND PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

Certain of our principals and employees and their respective affiliates occasionally invest in the Fund as limited partners or in other entities formed to acquire and hold real estate interests for our clients, at the request of, or with full and fair disclosure to, such clients.

The real estate acquired by us on behalf of our clients may be managed by a related person for which such related person receives property management fees. Such property management fees could motivate us, due to our affiliation with such persons, to favor investments for which our related persons receive property management fees over other investments for which such fees are not payable. We address this conflict through full and fair disclosure to clients.

## Item 12: Brokerage Practices

### **BROKERAGE POLICIES**

We generally do not use broker-dealers or other counterparties to execute client transactions. In the event that we are called upon to select or recommend broker-dealers or other counterparties to clients in the future, we will implement and adopt policies and procedures reasonably designed to ensure that such brokers are selected in a fair and equitable manner and will promptly amend our brochure to disclose such policies and procedures.

### **ALLOCATION OF INVESTMENT OPPORTUNITIES**

We generally allocate investment opportunities among active clients in a manner designed to optimize the investment objectives of each client, recognizing that, on occasion, certain investments may be equally suitable for more than one client. To enforce this policy, we have established the following formal procedure:

- (i) all potential investments are submitted to each client's respective portfolio manager, who determines whether each investment meets our overall criteria for market, sub-market, quality, etc. for such client;
- (ii) for investments meeting our overall criteria for a client, the client's portfolio manager then considers the investment's characteristics and its suitability for the client;
- (iii) to the extent that an investment is clearly suitable for only one client, it is assigned to that client; and
- (iv) to the extent that an investment, on balance, is equally suitable to more than one client (a "Contested Investment"), it is assigned to the client which has waited the longest to be assigned a new Contested Investment.

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

#### **REVIEWS**

Our portfolio managers, senior management and/or Chief Compliance Officer conduct reviews of all client accounts on at least a quarterly basis. With respect to accounting matters, we have engaged a nationally-recognized, independent public accounting firm to conduct annual audits of the Fund.

We invest client assets in investments in real property and entities that own real property. In monitoring the performance of the investments, we perform various levels of review. Among other items, we consider (i) actual investment performance compared to both average projected (or pro forma) performance and currently budgeted performance, (ii) the physical condition of the property, (iii) tenant and leasing issues, (iv) current market conditions and (v) current property value.

#### **ADDITIONAL REVIEWS**

While we generally conduct reviews of client accounts on at least a quarterly basis, we may conduct additional or more frequent reviews in the event of certain material events or circumstances, such as proposed asset acquisitions or dispositions.

#### **REPORTS TO INVESTORS/CLIENTS**

The content and frequency of regular reports vary according to the requirements of each client. We generally provide performance reports to our clients no less frequently than quarterly, and such reports consist of, among other things, an investment summary, performance and return review, a summary of property goals and key value opportunities, summary of significant events, property key indicators, quarterly valuation update, summary of tenant complaints, summary of property inspection, schedule of lease expirations and historical occupancy, summary of market conditions, leasing status reports, fee schedule, equity walk-forward, variance explanations, balance sheet and year-to-date income statement.

We generally also provide investors in the Fund with periodic reports, annual audited financial statements and annual U.S. income tax information.

All such reports are written and transmitted either electronically or by hard copy, or both, according to client preference.

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

### **THIRD PARTY COMPENSATION**

Except as disclosed in Item 10 above, we currently do not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to our clients.

### **REFERRALS**

We have entered into and may in the future enter into agreements or arrangements with placement agents, solicitors or other third parties who refer prospective investors in the Fund and/or other clients to us. In consideration of these referral services, such persons generally receive compensation from us (or our affiliates) which consists and/or may consist of, among other things, a percentage of the management fee and/or performance compensation otherwise payable to us or our affiliates, a percentage of an investor's commitment or a flat fee. Investors generally are not charged any higher or additional fees as a result of any placement agent arrangements. In every instance, all arrangements and payments of referral or placement agent fees are disclosed to applicable investors.

As noted under Item 10 above, we maintain, through a written Memorandum of Understanding, an informal relationship with Mayfair, the purpose of which is to establish a platform by which we and Mayfair may provide each other's clients information about, and access to, investment opportunities in our respective countries. Should one of our respective clients choose to make an investment which may require any services, advice or administration by the other firm, we may, upon prior notice to and with the consent of the client, share certain management and/or transaction fees received by us or Mayfair. We negotiate such fee sharing arrangements on a case by case basis with Mayfair. Nevertheless, each client will enter into a contractual relationship only with its own adviser, and such arrangements will not result in the imposition of any additional fees or costs to the client.

### **Item 15: Custody**

With respect to the Accounts, we generally utilize one or more special purpose vehicles to make investments (the “Special Purpose Vehicles”). We have, or may be deemed to have, custody of the Fund’s and Special Purpose Vehicle’s cash and securities, as applicable. In accordance with Rule 206(4)-2 under the Advisers Act, the Fund’s and Special Purpose Vehicle’s cash and securities, as applicable, are held with one or more qualified custodians selected by us or our affiliate. Cullen/Frost Bankers, Inc. currently serves as custodian to the Fund and/or Special Purpose Vehicles. We may change custodians at any time and from time to time without the consent of, or notice to, investors and clients. We have engaged a nationally-recognized, independent public accounting firm to conduct annual audits of the Fund and Special Purpose Vehicles, and audited financial statements (prepared in accordance with generally accepted accounting principles) are provided annually to clients and investors. We attempt to provide such financial statements within 120 days after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians do not provide statements directly to investors in the Fund.

## **Item 16: Investment Discretion**

### **DISCRETIONARY AUTHORITY**

We have discretionary power and authority over the types of investments to be bought or sold, as well as the amount to be bought or sold, on behalf of the Fund. Depending on the terms and conditions of the applicable investment management agreement, we may also have discretionary power and authority over the types of investments to be bought or sold, as well as the amount to be bought or sold, on behalf of an Account. We also provide non-discretionary investment management services to certain Accounts.

### **LIMITED POWER OF ATTORNEY**

Each investor in the Fund grants us or our affiliate a limited power of attorney to enable us to execute the applicable partnership agreement on their behalf. We have also been granted a limited power of attorney to effect investment decisions on behalf of the Fund and certain Accounts.

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

While we may technically have proxy voting authority on behalf of the Fund and Special Purpose Vehicles, none of such entities invest in securities and, accordingly, we do not expect to be called upon to vote proxies.



## Item 18: Financial Information

Not applicable.

## **General Information**

### **PRIVACY POLICY**

We have adopted policies and procedures reasonably designed to protect various records and information of clients and investors. Except as set forth in the applicable governing, account and/or offering materials and as otherwise authorized by each client and/or investor, private information about investors in the Fund and/or clients is disclosed only as permitted by applicable law to our affiliates and service providers, including our accountants, attorneys, brokers, custodians, transfer agents and any other parties whose services are necessary or convenient to the operation of the Fund. Notice of our privacy policy is provided on an annual basis to clients and investors and is available upon request.