

## INVESTMENT ADVISER BROCHURE

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**March 30, 2021**

This Investment Adviser Brochure ("**Brochure**") provides information about the qualifications and business practices of Sterling Bay Capital Advisers, LLC ("**Sterling Bay Advisers**") and its affiliates. If you have any questions about the contents of this Brochure, please contact us at (312) 466-4123. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "**SEC**") or by any state authority.

Sterling Bay Advisers is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"). However, such registration does not imply a certain level of skill or training.

Additional information regarding Sterling Bay Advisers is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 Material Changes

Since the last annual update of this Brochure, filed on March 30, 2020, we have filed an other-than-annual amendment on July 8, 2020 to reflect (i) the removal of Four Corners Capital Advisers, LLC ("**Four Corners Advisers**") as a relying investment adviser of Sterling Bay Advisers and any disclosure with respect to Four Corners Advisers and its clients, and (ii) our new office address.

No other material changes have been made to this brochure since the last annual update, dated March 30, 2020. Sterling Bay Advisers routinely makes changes throughout its Brochure in an effort to improve and clarify the description of its and its affiliates' business practices and compliance policies and procedures or in response to evolving industry and firm practices.

We encourage all recipients to read this Brochure carefully in its entirety.

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#### ITEM 4 ADVISORY BUSINESS

Sterling Bay Capital Advisers, LLC, a Delaware limited liability company and a registered investment adviser ("**Sterling Bay Advisers**"), and its affiliated investment advisers, provide investment advisory services to private investment funds.

Sterling Bay Advisers' clients include the following:

- **STERLING BAY CAPITAL PARTNERS I, LLC ("Fund I");**
- **STERLING BAY CAPITAL PARTNERS II, LP and SBCP II QUALIFIED PURCHASERS, LP (collectively, "Fund II"); and**
- **STERLING BAY CAPITAL PARTNERS III, LP and SBCP III – AI, LP (collectively, "Fund III")**

(each, a "**Fund**," and together with any future private investment fund to which Sterling Bay Advisers or its affiliates provide investment advisory services, including any parallel investment fund, alternative investment vehicle, Single-Asset Fund (defined below), or Co-Invest Fund (defined below), the "**Funds**"). From time to time, Sterling Bay Advisers also provides investment advisory services to private investment funds which are formed to make investments in a single asset (each, a "**Single-Asset Fund**"). An affiliate of Sterling Bay Advisers serves as managing member of the Single-Asset Fund and in some cases, a Fund holds an interest in such managing member and therefore indirectly holds an interest in the Single-Asset Fund. Investors in the Single-Asset Funds include third party investors that have made their investments through third-party crowd sourcing platforms.

The following are other investment advisers affiliated with Sterling Bay Advisers:

- **STERLING BAY CAPITAL MANAGEMENT, LLC;**
- **STERLING BAY CAPITAL PARTNERS II GP, LLC; and**
- **STERLING BAY CAPITAL PARTNERS III GP, LLC**

(and any future general partner or managing member of a Fund are collectively the "**General Partners**", each, a "**General Partner**" and together with Sterling Bay Advisers and its affiliated entities, "**Sterling Bay**").

Each General Partner is registered under the Advisers Act pursuant to Sterling Bay Advisers' registration in accordance with SEC guidance. This Brochure describes the business practices of each General Partner, all of which operate as a single advisory business.

In addition, from time to time, Sterling Bay has provided and may in the future provide (or agree to provide) certain employees or affiliates, existing investors or other third parties the opportunity to participate in co-invest vehicles ("**Co-Invest Funds**") that invest alongside a particular Fund (such primary investing entity, a "**Primary Fund**") or in certain Fund investments. Sterling Bay expects any such Co-Invest Fund typically will make and dispose of its investments at substantially the same time and on the same terms as the Primary Fund making the investment. However, from time to time, for strategic and other reasons, a Co-Invest Fund vehicle may purchase a portion of an investment from a Primary Fund. See Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading", for additional information regarding co-investment arrangements.

The Funds are real estate private equity funds and invest through negotiated transactions directly or indirectly in real estate and real estate-related assets, which Sterling Bay believes present attractive investment, development, redevelopment or repositioning opportunities. Real estate-related assets include any investment opportunity with a real estate component. Examples include, without limitation: (i) debt and securities, such as interests in real estate companies or debt instruments secured by real estate, (ii) other personal property with a real estate component, such as outdoor advertising signage, or (iii) operating businesses which have real estate holdings that Sterling Bay believes present an opportunity for expansion, sale or repositioning.

Sterling Bay's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly through limited liability companies or other entities and often alongside third-party joint venture partners.

Generally, Sterling Bay maintains day-to-day control of the limited liability companies or other entities through which the Funds hold their interests in the real estate or real estate-related assets. In certain instances, the Fund is a minority owner, and the limited liability companies or other entities through which the Fund holds its interests are

controlled by such Fund's joint venture partner. Whether a Fund is a controlling or minority owner, Sterling Bay's personnel manage, develop and control the real estate or real estate-related assets themselves.

Sterling Bay Advisers' advisory services for each Fund are detailed in the applicable private placement memoranda and limited partnership agreement or operating agreement for such Fund (the "**Governing Documents**"). The services of Sterling Bay Advisers are also further described below under Item 8 "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excluded from a particular investment due to legal, regulatory or other applicable constraints.

The Funds or the General Partners may enter and have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the applicable Fund's limited liability company operating agreement or limited partnership agreement or an investor's subscription agreement. Such rights or alterations could be regarding economic terms, fee structures, excuse rights, information rights, co-investment rights, or transfer rights. For the most part, any rights established, or any terms altered or supplemented will govern only the investment of the specific investor and not the terms of the Fund as a whole.

As of December 31, 2020, Sterling Bay Advisers managed **\$512,825,091** in client assets on a discretionary basis. Sterling Bay Advisers does not manage any client assets on a non-discretionary basis. Sterling Bay Advisers' principal owner is Andy Gloor (and entities controlled by him).

Sterling Bay Advisers launched its investment advisory businesses in 2013 with the formation of its first Fund, but has been engaged in real estate business ventures for substantially longer, with activities dating back to the 1980s.

## **ITEM 5 FEES AND COMPENSATION**

Sterling Bay receives remuneration for investment advisory services provided to the Funds (the "**Investment Advisory Compensation**") and other services performed for the Funds or the Funds' investments (the "**Service Compensation**"). Except as otherwise described in the applicable Governing Documents, fees and expenses are expected to be paid over the term of the applicable Fund, and investors generally are not permitted to withdraw or redeem interests in the Funds. While the Investment Advisory Compensation, the Service Compensation and expenses paid by the Funds are generally described below, existing and prospective investors should refer to a Fund's Governing Documents for further details regarding any Investment Advisory Compensation, Service Compensation or expenses paid by such Fund.

The Investment Advisory Compensation is made up of the following forms of compensation:

1. Sterling Bay Advisers receives an asset management fee from investors in Fund II, Fund III and certain Single-Asset Funds (the "**Asset Management Fee**"). The Asset Management Fee that investors in Fund II pay equals (a) during the investment period, 2% of such investor's capital commitment, and (b) after the investment period (or the occurrence of other events specified in the applicable Governing Documents), 2% of the difference between (i) the aggregate amount funded by such investor to make investments (including expenses directly attributable thereto) and an allocable share of all amounts committed by the General Partner to the Fund's investments (including follow-on investments) and (ii) all amounts specified in clause (i) attributable to investments which have been completely sold or written off, in each case payable quarterly in advance until the termination of Fund II. The Asset Management Fee that investors in Fund III pay equals (a) during the investment period, 1.5% per annum of an amount equal to such investor's commitment, and (b) after the Investment Period, 1.5% per annum of the sum of (i) with respect to each investment the General Partner has determined is not an established property (a "**Stable Asset**") as of the date of acquisition (an "**Opportunistic Property**"), such investor's capital contributions invested in such Opportunistic Property plus (ii) with respect to each Opportunistic Property that has been treated as a converted asset, together with a Stable Asset (a "**Core Asset**"), the greater of (x) such investor's capital contributions invested in such Core Asset and (y) the net asset value of such investor's interest in such Core Asset (as determined in accordance with Sterling Bay's valuation policy). The Asset Management Fee in Fund III is paid quarterly in advance. Sterling Bay Advisers also receives an Asset Management Fee from investors investing in certain Single-Asset Funds. The Asset Management Fee such investors in the Single-Asset Funds pay typically equals 1% of such investor's capital commitment and is payable quarterly in advance. The Asset Management Fee will commence as of the initial closing date, regardless of when an investor is actually admitted to Fund II, Fund III or the Single-Asset Fund, as applicable, and may be paid out of distributions or from drawdowns of commitments. Installments of the Asset Management Fee payable for any period other than a full

quarterly period are adjusted on a pro rata basis according to the actual number of days in such period.

2. In lieu of an asset management fee from Fund I, Fund I reimburses Sterling Bay Advisers for certain costs incurred by Sterling Bay in connection with the operation of Fund I, including, but not limited to, a reasonable allocation of the following costs and expenses: (a) payroll and other costs of management, administrative and clerical personnel, including salaries, wages, payroll taxes, bonuses, costs of employee benefit plans and temporary office help expenses; (b) accounting and bookkeeping costs; (c) insurance premiums and fees; (d) rent, utilities, office supplies, subscriptions and other office overhead; and (e) other similar administrative expenses. The reimbursements are made quarterly in arrears until the termination of Fund I.
3. The General Partners receive carried interest from their respective Funds (the “**Carried Interest**”). The structure of the Carried Interest compensation varies from Fund to Fund. The General Partner of Fund I receives a Carried Interest with respect to Fund I ranging from 25%-60% of all realized profits subject to an 8% annually compounding preferred return, as more fully described in the operating agreement of Fund I. The General Partner of Fund II receives a Carried Interest ranging from 25%-50% of all realized profits subject to a 7% annually compounding preferred return, as more fully described in the partnership agreement of Fund II. The General Partner of Fund III receives a Carried Interest ranging from 25%-50% of all realized profits from Opportunistic Properties subject to a 7% annually compounding preferred return and 20% of all realized profits from the fund's portfolio of core and core-plus assets subject to a 10% annually compounding preferred return. The managing members of certain of the Single-Asset Funds also receive Carried Interest from the Single-Asset Funds, which Carried Interest ranges from 15%-70% of all realized profits subject to a preferred return as set forth in more detail in the Governing Documents of the Single-Asset Funds. In each Fund, the Carried Interest is subject to a potential giveback at the end of life of each Fund if the applicable General Partner has received excess cumulative distributions, as more specifically described within each Fund's operating agreement or partnership agreement, as applicable. Sterling Bay has and may in the future exempt certain principals, employees, consultants and certain service providers from payment of all or a portion of Investment Advisory Compensation and/or Carried Interest on their direct or indirect investment in one or more Fund.

In certain circumstances, the Funds or underlying investment properties of the Funds retain Sterling Bay to provide any or all of the services that would otherwise be performed by third parties and pay Service Compensation for such services. The Service Compensation consists of all compensation for services other than investment advisory services that Sterling Bay provide to the Funds or the Funds' underlying investments. The Service Compensation will only be paid when earned and not all of the types of Service Compensation described herein and the associated services will apply to each Fund or investment. Depending on the nature of the Service Compensation, the payment might be made by a Fund or by an investment, in which case the Fund indirectly bears the cost of such Service Compensation. The following are examples of the types of services provided and the methods for calculating Service Compensation:

1. Sterling Bay provides property management services to the Funds' underlying investments. In exchange for those services, Sterling Bay receives reimbursement for the allocation of all or a portion of Sterling Bay property management, accounting and engineering employees' and other overhead expenses connected to the management of the Funds' underlying investments plus a property management fee paid monthly, which is typically a percentage of gross revenue from the property subject to a minimum amount. Sterling Bay may subcontract all or a portion of the performance of the property management services to independent service providers, in which case the independent service providers will be paid out of the property management compensation paid to Sterling Bay.
2. Sterling Bay provides construction, development or entitlement management fees for construction, development or entitlement management services provided by Sterling Bay for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a percentage of hard and construction-related soft costs or project costs paid monthly upon commencement through completion of the construction, development or entitlement. Sterling Bay may subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.
3. Sterling Bay provides development or entitlement management services for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a percentage of project

costs paid monthly upon commencement through completion of construction. Sterling Bay may subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.

4. Sterling Bay provides general contractor services for the Funds' underlying investments. In exchange for those services, Sterling Bay typically receives a fee equal to a percentage of the cost of the supervised work, inclusive of overhead and profit. Sterling Bay may subcontract the performance of such services to independent service providers, in which case the independent service providers will be paid out of the fees paid to Sterling Bay.
5. Sterling Bay provides real estate leasing, acquisition and disposition brokerage services for the Funds' underlying investments. In exchange for such services, Sterling Bay receives fees for successful leases, purchases and sales. For office leases, Sterling Bay typically receives an amount per rentable square foot per year of lease term inclusive of the commissions paid to outside brokers representing landlord, but exclusive of the commissions paid to outside brokers representing potential tenants. For retail and industrial leases, Sterling Bay typically receives a percentage of total rent paid during lease term, inclusive of the commissions paid to outside brokers representing landlord but exclusive of the commissions paid to outside brokers representing potential tenants. For acquisitions, Sterling Bay typically receives a percentage of the gross purchase price, inclusive of any commissions paid to brokers representing the buyer but exclusive of the commissions paid to outside brokers representing the seller, paid upon purchase. For dispositions, Sterling Bay typically receives a percentage of the gross purchase price, inclusive of any commissions paid to brokers representing the seller but exclusive of the commissions paid to outside brokers representing the buyer, paid upon sale.
6. Sterling Bay provides mortgage brokerage services for the Funds' underlying investments. In exchange for such services, Sterling Bay receives a fee for successful mortgage financing and refinancing services, which fee is a percentage of the total loan proceeds subject to a minimum.
7. Sterling Bay provides asset management services for the Funds' underlying investments owned through joint ventures or Single-Asset Funds. In exchange for such services, Sterling Bay receives a fee equal to a percentage of gross receipts of the investment subject to a minimum or a monthly flat fee.
8. Sterling Bay may provide marketing, information technology, legal, design and architecture services to the Funds' underlying investments. In exchange for such services, Sterling Bay receives a fee at the then-current hourly rates for such services, as determined in the sole discretion of Sterling Bay.

In such events, Sterling Bay may earn fees or be reimbursed for performing such services subject to certain specified rates and the rates that would be otherwise payable by the Funds if such services were provided by third parties on an arms' length basis as detailed in the Funds' Governing Documents. Furthermore, the fees for services provided to a particular Fund or Fund subsidiary by Sterling Bay may be higher than those charged by Sterling Bay to another Fund or Fund's subsidiary or investment managed by or affiliated with Sterling Bay. Any Services Compensation will not offset or reduce the Asset Management Fee. Although Sterling Bay will adhere to any restrictions set forth in a Fund's Governing Documents, Sterling Bay has a conflict of interest in determining the costs of such services that will be charged to the Funds. In addition, Sterling Bay has an incentive to favor their affiliates over more qualified service providers. In the event Sterling Bay does not provide a particular service outlined in Service Compensation, a Fund bears the cost, directly or indirectly through its interest in an investment, of any third party engaged to provide such services. Sterling Bay is not limited to earning only the types of Service Compensation described above. Existing and prospective investors should refer to the applicable Governing Documents for further details regarding Service Compensation, including the expected rates for such services.

Sterling Bay Advisers intends for transactions between the Funds and/or the Funds' subsidiaries, on the one hand, and Sterling Bay, on the other hand, to be on reasonable terms as determined by Sterling Bay in its sole good faith judgment. However, Sterling Bay does not intend to obtain market surveys of similar fees or third-party opinions of reasonableness as to the terms of the transactions between the Funds and/or the Funds' subsidiaries and Sterling Bay. However, in some instances, Sterling Bay may, in its sole discretion, decide to obtain such third-party opinions of reasonableness with respect to certain terms of such transactions. Further, although Sterling Bay Advisers may present transactions to an advisory board established under a particular Fund's governing documents for such advisory board's review prior to the Fund's commitment to such transactions, Sterling Bay Advisers is under no obligation to do so. More favorable terms for such transactions may be available to the Funds if the Funds and the Funds' subsidiaries engaged

third parties without any affiliation to Sterling Bay. Investors in the Funds consent to such transactions with Sterling Bay prospectively by virtue of their investment. See Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for further information regarding affiliated transactions.

## Other Information

In addition to the Investment Advisory Compensation and the Service Compensation, each Fund bears all of the fees, costs, expenses, liabilities and obligations relating to the Fund and/or its activities or investments (to the extent not paid by or reimbursed by a subsidiary or an investment). Each Fund's Governing Documents set forth the particulars of such operating expenses that may be borne by the Fund, but such operating expenses may include but are not limited to the following fees, costs, expenses, liabilities and obligations relating or attributable to:

- activities with respect to the developing, structuring, organizing, negotiating, consummating, financing, acquiring, owning, managing, monitoring, operating, hedging, leasing, marketing (including events, sponsorships, donations and programming), servicing, liquidating, or otherwise disposing of, subsidiaries and a Fund's actual and potential investments, whether consummated, including extraordinary expenses and fees, costs, expenses, liabilities or obligations relating to any alternative investment vehicles or feeder funds, reverse break up, termination and other similar fees;
- indebtedness of, or guarantees made by the Funds or Sterling Bay on behalf of the Funds;
- broker, dealer, finder, underwriting, loan administration, private placement fees, sales, commissions, investment banker, finder and similar services, as well as brokerage, sale, custodial, depository, record keeping, account and similar services;
- legal (whether in-house or third-party), accounting, research, auditing, administration, information, appraisal, advisory, valuation, real estate title, survey, appraisal, environmental, property management, leasing, development, mortgage brokerage, construction management, hedging, consulting (including consulting and retainer fees and other compensation), tax, third party experts and other professional fees;
- insurance and regulatory expenses (including for directors and officers and errors and omissions), and any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of the Fund (except to the extent that the Fund is reimbursed by an investor or such tax, fee or charge is treated as having been distributed to the investors pursuant to the partnership agreement);
- filing, title, transfer, registration and other similar fees and expenses, as well as the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax information, Schedules K-1, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), including the fees and costs of any third-party services providers and professionals related to the foregoing;
- printing, communications, marketing and publicity as well as developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting reports (including subscription-based services) for the benefit of the Funds or investors;
- activities or proceedings of the Advisory Board (including any costs and expenses in attending meetings) as well as any periodic meetings of investors;
- indemnification, actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered in connection therewith, governmental inquiry, investigation or proceeding involving the Funds;
- the termination, liquidation, winding up or dissolution of a Fund, defaults by investors in the payment of any capital contributions, unreimbursed costs and expenses incurred in connection with any transfer by an investor, distributions to investors and other expenses; and



- any travel (including the use of private aircraft owned or partially owned by Sterling Bay, any of its affiliates or any of their respective owners) at a cost above the cost of first class commercial airfare and first and business class commercial travel), lodging, meals or entertainment related to any of the foregoing.

Brokerage fees may be incurred in accordance with the practices set forth in Item 12 below, “Brokerage Practices.”

Sterling Bay and its personnel can also be expected to receive certain intangible and/or other benefits arising or resulting from their activities on behalf of the Funds, which will not be subject to Asset Management Fee offsets or otherwise shared with the Funds, their investors and/or the investments. For example, airline travel or hotel stays incurred as fund expenses may result in “miles” or “points” or credit in loyalty or status programs, and such benefits will accrue exclusively to Sterling Bay and its personnel (and not to the Funds, their investors and/or the investments) even though the cost of the underlying service is borne directly by the Funds or their investments and indirectly by the investors in the Funds.

With respect to Co-Invest Funds, fees received and expenses borne are expected to be negotiated on a vehicle-by-vehicle basis, but may include any or all of the types of fees and expenses described above. Subject to the provisions of any applicable Governing Documents, Sterling Bay expects pursuit costs and due diligence costs incurred in conjunction with possible co-investments generally will be paid solely by the Primary Fund and will not be shared by co-investors or joint venture partners, except that a pro rata share of pursuit and due diligence costs may be allocated to a single purpose Co-Invest Fund when a transaction is consummated or if the Co-Invest Fund is established by the time the deal breaks. In certain cases, potential co-investors will not bear any subscription credit facility fees and expenses, which are generally allocated entirely to the primary Fund that is the borrower under such facility. In addition, in certain cases, a Fund may bear expenses in respect of an existing or prospective investments that will not be borne by other owners or investors in such investment (including co-investors or Co-Invest Funds), where Sterling Bay has determined such arrangement to be in the best interest of such Fund (e.g., a Fund engages or pays for a consultant for services in respect of an investment without reimbursement by other owners of the investment). Fees received by Sterling Bay relating to a Co-Invest Fund do not offset the Investment Advisory Compensation or Service Compensation paid to Sterling Bay by the Primary Fund.

Sterling Bay has and may in the future, in its sole discretion, waive all or a portion of Investment Advisory Compensation for any investor, including but not limited to principals and employees of Sterling Bay.

After payment of all overhead and expenses, principals and other employees (past and present) will receive residual portions of the Investment Advisory Compensation and Service Compensation.

The expenses described above are detailed, but do not include every possible expense a Fund may incur. Investors should review the applicable Fund’s Governing Documents for further details.

## **ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described in Item 5 “Fees and Compensation”, Sterling Bay receives a carried interest allocation on certain realized profits in the Funds. Sterling Bay has and may in the future, in its sole discretion, waive or reduce the Carried Interest with respect to certain persons as described above.

The fact that the Carried Interest is based on a percentage of net profits may create an incentive for Sterling Bay to cause the Funds to make riskier or more speculative investments or may otherwise affect the timing of investment dispositions and/or financings.

## **ITEM 7 TYPES OF CLIENTS**

Sterling Bay Advisers provide investment advice to Funds, including Fund I, Fund II, Fund III, Co-Invest Funds and Single-Asset Funds. Funds (including Single-Asset Funds and Co-Invest Funds) may include investment partnerships or other investment entities formed under domestic or non-U.S. laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Funds may include high net-worth individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or employees of Sterling Bay.

Fund III has a stated minimum investment amount of \$500,000 for third-party investors, and Fund III's interests were offered and sold solely to accredited investors who are also qualified clients (or qualified knowledgeable Sterling Bay personnel). Such minimum investment amount may be waived by Sterling Bay.

Fund II has a stated minimum investment amount of \$10,000,000 for third-party investors, and Fund II's interests were offered and sold solely to accredited investors who are also qualified clients (or qualified knowledgeable Sterling Bay personnel). Such minimum investment amount was waived by Sterling Bay Advisers, but was not less than \$25,000.

Fund I has a stated minimum investment amount of \$10,000,000 for third-party investors, and Fund I's interests were offered and sold solely to accredited investors who were also qualified clients (or qualified knowledgeable Sterling Bay personnel). Such minimum investment amount was waived by Sterling Bay Advisers, but was not less than \$100,000.

Single-Asset Funds have a stated minimum investment amount ranging from \$25,000 to \$1,000,000 for third-party investors and interests in Single-Asset Funds are offered and sold solely to accredited investors who are also qualified clients. Such minimum investment amount may be waived by the managing member of the applicable Single-Asset Fund in accordance with the applicable Governing Documents.

## **ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Sterling Bay is an entrepreneurial, full-service real estate investment, development and management company. Sterling Bay's principals have significant experience identifying and evaluating real estate and hospitality opportunities. With an extensive network of relationships and diverse in-house resources, Sterling Bay has access to, and the capacity to execute, unique real estate and hospitality investment opportunities.

There can be no assurance that Sterling Bay Advisers will achieve the investment objectives of the Funds and a loss of investment may be possible.

### **Investment and Operating Strategy**

The Funds pursue an investment strategy that involves: (i) opportunistic or strategic acquisitions, (ii) appropriate capital partners and debt levels, (iii) development, redevelopment or creative repositioning, (iv) recapitalization, (v) variable hold periods, and (vi) timely exits. The Funds seek to acquire direct or indirect interests in real estate or real estate related assets (including without limitation debt and equity securities and other personal property), which it believes present attractive investment, development, redevelopment or repositioning opportunities. The Funds target investments in major urban centers in the U.S., including but not limited to Boston, Washington D.C., Miami, Los Angeles, Salt Lake City, San Francisco, Nashville, Denver, Seattle, Portland, Dallas and Austin, with a focus on Chicago. The Funds typically invest in real estate or real estate-related assets through joint venture entities alongside third-party joint venture partners. The Funds use Sterling Bay's extensive network of contacts and relationships throughout the real estate industry to source, improve and dispose of investments. Sterling Bay provides value-add development, management and leasing services to the Fund's investments. The Funds pursue multiple exit strategies, designed to capitalize on the particular attributes of each investment and Sterling Bay's transactional capabilities.

### **Risks of Investment**

Each Fund and its investors bear the risk of loss that the Sterling Bay investment strategy entails. The discussion below enumerates certain risk factors that apply generally to an investment in a Fund (and for the sake of reading clarity, generic references to "the Fund" and "the General Partner" are used rather than a specific fund, general partner or management entity name). Prior to making any investment in a Fund, investors should review the applicable Fund's private placement memorandum (or similar disclosure document) for additional information regarding risks and conflicts of interest specific to each Fund.

#### **General Risks**

**Business Risks; Nature of Investments.** Based on the Fund's strategy, operating results in a specified period will be difficult to predict. Fund investments involve a high degree of business and financial risk that can result in

substantial losses. The investments to be made by the Fund are speculative in nature and the possibility of partial or total loss of capital will exist. Investors should not subscribe or invest in the Fund unless they can readily bear the consequences of such loss.

**Future and Past Performance.** The performance of the prior investments is not necessarily indicative of the Fund's future results. While the General Partner intends for the Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

**Concentration of Investments.** The Fund will participate in a limited number of investments and intends to make most of its investments in certain regions or sectors within a short period of time. A Single-Asset Fund in particular generally only holds a single asset. As a result, the Fund's investment portfolio could become highly concentrated, and the performance of one or a few holdings or of one or a few particular regions or sectors may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Fund may invest in fewer real estate and real estate-related assets and thus be less diversified.

**Lack of Sufficient Investment Opportunities; Competition.** The business of identifying, structuring and completing and realizing on appropriate investments is highly competitive and involves a high degree of uncertainty. It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, investors will be required to bear Asset Management Fees during the investment period based on the entire amount of the investors' capital commitments and other expenses as set forth in the partnership agreement. In addition, it is possible that a Fund may acquire interests in properties or entities that are in competition with properties or entities owned by other Funds.

**Illiquidity; Lack of Current Distributions.** An investment in the Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Fund (including any Investment Advisory Compensation payable to Sterling Bay) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded capital commitments.

**Leveraged Investments.** The Fund may employ leverage in the acquisition, operation and ownership of its investments and may refinance its investments, if desirable. Debt could take the form of mortgage or other financing at the property level or ownership level. Such use of leverage generally magnifies the Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage by the Fund will also result in interest expense and other costs to the Fund that may not be covered by distributions made to the Fund or appreciation of its investments. Leveraged investments may be subject to restrictive financial and operating covenants and the Fund may provide guarantees in order to secure such leverage. In the event an investment cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the investment, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be limited or costly at the time the Fund determines that it is desirable to sell all or a part of an investment, the Fund may not achieve an exit capitalization rate consistent with its forecasts. The Fund may also borrow money or guaranty indebtedness (such as a guaranty of an investment's debt). The Fund may incur leverage on a joint and several basis with one or more other investment funds and entities managed or advised by the General Partner or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent the Fund incurs leverage (or provides such guaranties), such amounts may be secured by capital commitments made by the Fund's investors and such investors' contributions may be required to be made directly to one or more lenders instead of the Fund.

**Limited Transferability of Fund Interests.** There will be no public market for the Fund interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under the partnership agreement (or other operating agreement) and applicable securities laws. In general, withdrawals of such interests are not permitted and Fund interests are not redeemable.

**Restricted Nature of Investment Positions.** Generally, there will be no readily available market for Fund investments, and hence, most of the Fund's investments will be difficult to value. Certain investments may be distributed in kind to the investors and it may be difficult to liquidate such investments received at a price or within a

time period that is determined to be ideal by such investors. After a distribution of an investment is made to the investors, many investors may decide to liquidate such investment within a short period of time, which could have an adverse impact on the price of such investment. The price at which such investment may be sold by such investors may be lower than the value of such investment determined pursuant to the partnership agreement, including the value used to determine the amount of any carried interest available to the General Partner with respect to such investment.

**Reliance on the General Partner.** Control over the operation of the Fund will be vested with the General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the principals. In addition, the General Partner will rely on affiliates of the General Partner for property management, leasing, development, mortgage brokerage and/or construction management services needed by the Fund. The loss or reduction of service of one or more of the principals could have an adverse effect on the Fund's ability to realize its investment objectives. In addition, the principals currently, and may in the future, manage other investments and/or investment funds besides the Fund and the principals may need to devote substantial amounts of their time to the investment activities of such other investments and/or funds, which may pose conflicts of interest in the allocation of the time of the principals. Investors generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend on the actions of the General Partner. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on the Fund or one or more of its real estate and real estate-related assets including potential acceleration of debt facilities.

**Hedging Arrangements; Related Regulations.** The General Partner may (but is not obligated to) endeavor to manage the Fund's or any investment's interest rate exposures or other exposures, using hedging techniques where available and appropriate. The Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject the Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose the Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements may create for the General Partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of the Fund or any investment to hedge its exposures becomes limited by such requirements.

**Credit Facility.** The Fund may establish a credit facility with one or more financial institutions (a "**Credit Facility**"). Implementation and utilization of the Credit Facility may result in fees and expenses to the Fund. In order to obtain the Credit Facility, the General Partner expects that (a) it will be required to assign to each such Credit Facility issuer/lender its right to call the undrawn commitments as may be required to honor any Credit Facility draws and/or repay any loans, including any interest accrued thereon, (b) the investors may be required to acknowledge and consent to the assignment of the General Partner's right in respect thereof and (c) the General Partner may be required to assign its rights with respect to defaulting investors for such purpose. If the Fund does not honor its obligations pursuant to the Credit Facility, the provider(s) of the Credit Facility may have the right to take action against any investor or its interest in the Fund, including directly drawing capital from the investors. Investors may also be required to deliver opinions and other documents to the lenders in connection with such Credit Facility, at the investor's own expense. Such costs will not be reimbursed by the Fund. It is anticipated that financing terms of any such Credit Facility may contain a number of common covenants that, among other things, might restrict the ability of the Fund to (i) acquire or dispose of assets or businesses, (ii) incur additional indebtedness, (iii) make capital expenditures, (iv) make cash distributions, (v) create liens on assets, (vi) enter into leases, investments or acquisitions, (vii) engage in mergers or consolidations, or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Fund (including its ability to acquire additional assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a Credit Facility would likely require the Fund to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. The Fund may incur indebtedness under such Credit Facility that bears interest at a floating rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable-rate debt.

*Third Party Co-Investment; Reliance on Third-Party Joint Venture Partners and Managers.* Certain of the Fund's investments may be made as a co-venturer or partner with the seller of the property, an affiliate of the seller, an investor in the Fund or other third parties (including other investment funds, accounts and clients managed or advised by Sterling Bay). Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) the Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of the Fund may at any time have economic or business interests or goals that are inconsistent with those of the Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to the Fund's investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances the Fund may be liable for actions of its co-venturers or partners. The co-venturer or partner may be a joint venture partner or interest holder in another joint venture or other vehicle in which Sterling Bay has an interest or otherwise controls. The co-venturer or partner may also be entitled to receive payments from, or allocations or performance-based compensation (e.g., carried interest) in respect of, the Fund as well as such investments, and in such circumstances, any such amounts may be treated as a Fund expense and will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Sterling Bay, be deemed paid to or received by Sterling Bay or reduce the Asset Management Fee. Moreover, Sterling Bay may receive fees associated with capital invested by a co-venturer or partner relating to investments in which the Fund participates. This may be in connection with a joint venture in which the Fund participates or other similar arrangements with respect to assets or other interests retained by a seller or other commercial counterparty with respect to which Sterling Bay performs services. In addition, the Fund may co-invest with non-affiliated co-investors or partners whose ability to influence the affairs of the investments in which the Fund invests may be significant, and even greater than that of the Fund and as such, the Fund may be required to rely upon the abilities and management expertise of such co-venturer or partner. It may also be more difficult for the Fund to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment may be subject to a buy-sell right). The Fund may grant co-venturers or partners approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require the Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, the Fund may be unable to fully realize its expected return on any such investment. Further, to the extent that the Fund offers any co-investment opportunity to any investors or third parties, some or all of the risks described above may also apply to such co-investments.

*Impact of Government Regulation.* Government authorities at all levels are actively involved in the regulation of land use and zoning, environmental protection and safety and other matters affecting the ownership, use and operation of real property. Regulations may be promulgated that could restrict or curtail certain usages of existing structures, or require that such structures be renovated or altered in some manner. The promulgation and enforcement of such regulations could increase expenses, and lower the income or rate of return, as well as adversely affect the value of any of the Fund's investments. Operators are also subject to laws governing their relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with, or changes in, these laws could reduce the revenue and profitability of the Fund. Changes in U.S. federal, state, and local or foreign tax law, interpretations of existing tax law, or adverse determinations by tax authorities, could increase the Fund's tax burden or otherwise adversely affect the Fund's financial condition or results of operations. Changes to accounting rules or regulations may adversely affect the Fund's financial condition. In addition, regulation of the leasing of residential property by many state and local governments includes controls over rents that may be charged to tenants. Such regulations often impose limits on rent increases and may require that properties comply with specified requirements as a precondition for rent increases.

*Advisory Board.* The General Partner will appoint one or more limited partner representatives to the Fund's advisory board. The partnership agreement may provide that to the fullest extent permitted by applicable law, none of the advisory board members owe any fiduciary duties to the Fund or any other partner. In addition, representatives of the advisory board may have various business and other relationships with Sterling Bay and its partners, employees and affiliates. These relationships may influence their decisions as members of the advisory board.

*Uninsured Losses.* The Fund will likely maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. There are certain types of losses (generally of a catastrophic nature such as those caused by fire, flood, freeze, hail, hurricanes, drought, severe frost, disease, pests, riots and wars) that are uninsurable, not fully insurable or not insurable on economically feasible terms. If such losses occurred to the investment assets, the Fund could lose both its invested capital and profits anticipated therefrom, and the investors could lose their investment, except for the value of the underlying real estate remaining after such event.

**Environmental and Contingent Liabilities.** The Fund's investments will be subject to various federal, state and local laws, ordinances, regulations and administrative rulings, which, among other things, establish standards for the treatment, storage and disposal of solid and hazardous waste. Under such laws, ordinances, regulations and administrative rulings, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Often joint and several liability is imposed on past and present owners and users of real property for hazardous substance remediation and removal costs without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property generally are not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The Fund may, but is not obligated to, purchase adequate insurance to cover the risk of loss from environmental claims based on environmental problems. The presence of such hazardous substances, or the failure to properly remediate contamination from such hazardous substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Fund's return from such investment. Also, in connection with the disposition of a property, the Fund may be required to make representations about any contingent liabilities inherent in the real estate, such as environmental clean-up costs. The Fund also may be required to indemnify the purchasers of such property to the extent that any such representations are inaccurate. These arrangements may result in contingent liabilities for which the Fund may establish reserves or escrows.

**Investment in Distressed Assets.** The Fund may make investments that either are or become non-performing or otherwise troubled. These investments may experience financial difficulties that may never be overcome, and there can be no assurance that the Fund's rate of return objectives will be realized or that there will be any return of capital. The Fund's investments are likely to be subject to the prior interests of a mortgage lender, which could foreclose on its mortgage (and wipe out the Fund's investment) if a mortgage default occurred. Investments in properties operating under the close supervision of a mortgage lender or under certain bankruptcy laws are, in certain circumstances, subject to certain additional potential liabilities, which may exceed the value of the Fund's original investment. In addition, lenders who have inappropriately exercised control over the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Investments in properties operating in workout modes or under Chapter 11 of the United States Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of the Fund's original investment. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to the investors may be reclaimed if such payments or distributions are later determined to have been fraudulent conveyances or preferential payments. Numerous other risks also arise in the workout and bankruptcy contexts.

**Title and Perfection.** Matters relating to title to the properties will be insured through a title policy or endorsement thereto from a title company acceptable to the Fund. The coverage offered by the title policy or any particular endorsement could prove to be insufficient to cover the full scope of potential loss intended to be covered by such policy or endorsement. Additionally, the title company insuring any such loss may become insolvent. The existence of these factors could affect a property and have a material and adverse impact on the Fund's financial condition, results of operation and ability to pay distributions to Investors.

**Use of Subscription Lines.** The Funds may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, the undrawn capital commitments of investors, i.e., subscription lines) prior to calling capital commitments. The interest expense and other costs of any such borrowings will be borne by the relevant Fund and, accordingly, may decrease net returns of such Fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Fund. In light of the foregoing, Sterling Bay has an incentive to cause such vehicle to borrow in this manner in lieu of drawing down capital commitments, subject to the operating and offering documents of each Fund.

**Cybersecurity and Identity Theft.** Sterling Bay, the Funds and their investments generally rely on information technology systems for current and planned operations. Information and technology systems of Sterling Bay and the investments may be 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. If any systems designed to manage such risks are compromised, become inoperable for extended periods of time or cease to function properly, Sterling Bay, a Fund and/or an investment may have to make a significant investment to fix or replace them. Any disruption in any of these systems or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect a Fund's investment results and its ability to make distributions to its partners. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Sterling Bay's, a Fund's and/or an investment's 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 Sterling Bay's, a Fund's or an investment's reputation, subject them and their respective affiliates to legal claims and otherwise affect their business and financial performance.

*Diseases, Pandemics and Epidemics.* The impact of disease and epidemics may have a negative impact on Sterling Bay, the Funds and their investments and each of their respective affiliates and the performance and financial position of each of the foregoing. The COVID-19 pandemic, renewed outbreaks of other epidemics or the outbreak of new epidemics have or could result in health or other government authorities requiring the closure of offices or other businesses and have or could also result in a general economic decline. For example, such events may adversely impact economic activity through disruption in supply and delivery chains. Moreover, the operations of any of the foregoing persons could be negatively affected if personnel are quarantined as the result of, or in order to avoid, exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses may have a material adverse effect on business and results of operations. A resulting negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility, cause credit spreads to widen, and reduce liquidity, all of which could have an adverse effect on any of the foregoing persons.

The duration of the business disruption and related financial impact caused by a widespread health crisis cannot be reasonably estimated. COVID-19 has spread around the world resulting in wide-spread business and social disruption. The speed and extent of the spread of COVID-19 and the duration and intensity of resulting business disruption and related financial and social impact, are uncertain and such adverse effects have been material and are expected to remain material for the foreseeable future. Governmental agencies and private sector participants have sought to mitigate the adverse effects of COVID-19, which has included such measures as heightened sanitary practices, telecommuting, quarantine, curtailment or cessation of travel and other restrictions, and, more recently, the medical community has developed multiple vaccines that have proven effective in studies and are currently being rolled out to various segments of the population. However, delays and other logistical issues relating to vaccination of large segments of the population continue to significantly impact the timeline of a COVID-19 recovery.

The operations and business results of Sterling Bay, the Funds and their investments, and each of their respective affiliates could be materially adversely affected by the COVID-19 outbreak and such outbreak of future outbreaks may adversely affect the Fund's ability to fulfill its investment obligations. The extent to which COVID-19 (or any other disease or epidemic) impacts business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain COVID-19 or treat its impact, among others, and other factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency, including, without limitation, the COVID-19 pandemic, may materially and adversely impact (a) the value and performance of the Funds' investments, (b) the ability of the Funds' investments to continue to meet loan covenants, post margin or repay loans on a timely basis or at all, or (c) the Funds' ability to source, manage and divest investments and the Funds' ability to achieve its investment objectives, all of which could result in significant losses to the Funds. The foregoing market conditions may cause the Funds to write down assets materially as the fair market value of its investments may be reduced in light of a potential or actual economic decline or recession, decline in or lack of consumer confidence or uncertain and volatile market conditions that are difficult to assess or predict. In addition, the operations of Sterling Bay, the Funds and their investments and each of their respective affiliates may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel.

*Business Continuity Plans.* In the event of unforeseen catastrophic events such as natural disasters, terrorist attacks and epidemics, Sterling Bay will initiate its business continuity plan to safeguard that its employees have the resources and technology necessary to continue their responsibilities and meet investor needs. Sterling Bay is not able to predict the level of disruption that such catastrophic events may have on its operation or the ability of its plan to succeed in a time of crisis. Thus, its business continuity plan may be insufficient to continue operating Sterling Bay's business as usual in light of such unforeseen circumstances. Any insufficiency in the business continuity plan could cause interruptions in the operations of Sterling Bay, the Funds and their investments, and/or each of their respective affiliates.

#### Risks Related to Real Estate Investments

**General Real Estate Risks.** The Fund's investments will be subject to the risks incident to the ownership and operation of real estate and real estate-related businesses and assets, including changes in the general economic climate, local, national or international 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, attractiveness and location of the properties and changes in the relative popularity of property types and locations, the physical attributes of the building with respect to the current or future technological needs of the tenants, changes in the financial condition of tenants, buyers and sellers of properties, changes in operating costs and expenses, uninsured losses or delays from casualties or condemnation, changes in applicable laws, the quality of a building's tenants, government regulations (including those governing usage, improvement and zoning) and fiscal policies, the availability of financing, the strength of the local labor and financial markets, interest rate levels, environmental liabilities (including remediation expenses), contingent liabilities, successor liability for investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property), acts of God, acts of war (declared or undeclared), terrorist acts, work stoppages, shortages of labor, strikes, union relations and contracts, fluctuating prices and supply of labor and/or other labor-related factors and other factors beyond the control of the General Partner, the Fund and their respective affiliates.

**Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.** Deterioration of the global credit markets would make it more difficult for investment funds such as the Fund to obtain favorable financing for investments. The resulting widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, would dramatically reduce investor demand for debt, generally, but particularly for debt secured by real estate such as commercial mortgage loans or commercial mortgage backed securities, which in turn would likely lead some banks and other lenders to be unwilling to finance new private equity real estate investments or to only offer committed financing for these investments on unattractive terms. The Fund's ability to generate attractive investment returns may be adversely affected to the extent the Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of the Fund to realize its investments at favorable times or for favorable prices.

**Risks Associated with Unspecified Transactions.** Typically, when the Fund begins investing, the Fund's investments have not been identified. Investors will be relying on the ability of the General Partner to identify and evaluate the investments to be made by the Fund. Because such investments may occur over a substantial period of time, the partnership faces the risks of changes in long-term interest rates and adverse changes in the real estate markets. Even if the investments of the Fund are successful, the returns will not be realized by the Partners for several years.

**Development and Construction or Renovation Risks.** The Fund's investments are expected to include acquisition of direct or indirect interests in undeveloped land or underdeveloped real property (which may often be non-income producing), real estate developments or redevelopments and/or businesses that engage in real estate development or redevelopment. To the extent that the Fund invests in such assets or activities, it will be subject to the risks normally associated with such assets and development activities, including the possibility of development cost overruns and delays due to various factors (including inclement weather, labor or material shortages, the unavailability of construction and permanent financing and timely receipt of zoning and other regulatory approvals), the availability of both construction and permanent financing on favorable terms and market or site deterioration after acquisition. Any unanticipated delays or expenses could have an adverse effect on the results of operations and financial condition of the Fund. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may continue to experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.

**Competition with Other Owners of Commercial Properties.** The Fund will face significant competition from other developers, owners and operators of similar properties, which may include Sterling Bay for other client accounts or existing or prospective joint venture partners of Sterling Bay, in the same markets and may be in competition with other properties owned or managed by Sterling Bay for its own account or for other client accounts. This competition may affect the Fund's ability to attract and retain tenants and may reduce the rents the Fund is able to charge. Additionally, when the Fund seeks to sell its properties, it will compete with other owners of commercial properties, which, in certain instances, may include Sterling Bay for its own account or for other client accounts, or any existing or prospective joint venture partner of Sterling Bay in connection with the sale of properties.

**Investments in Real Estate Debt.** In certain cases, the Fund may hold direct or indirect investments in certain real estate-related debt instruments. The Fund's use of such instruments is intended to be limited and is expected to



be made in connection with obtaining title in a property, although there can be no guarantee that the Fund will be able to obtain such title. If the Fund is unable to obtain title to the applicable property, the Fund may have acquired such debt instruments for a higher price than it otherwise would have paid and may be forced to hold such debt instruments for longer than anticipated, in which case the following risks may apply. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real estate investments generally, real-estate related debt investments are subject to a variety of risks, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the exercise of contractual remedies for defaults of such investments. Debt investments have special inherent risks relative to collateral value. In the event of default, the source of repayment is limited to the value of the collateral and may be subordinate to other lien holders (and the collateral value of the property may be less than the outstanding amount of the investment). Real estate loans acquired by the Fund may be at the time of their acquisition, or may become after origination, participation or acquisition, non-performing for a wide variety of reasons. Non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. To the extent that the Fund purchases partial interests in non-performing loans, the Fund may not have control over the workout process and the management of the real estate assets. It may be necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Fund, and the foreclosure process can be lengthy and expensive.

**Operation and Repositioning Costs.** Expenses of operation and repositioning (including real estate taxes, insurance, wages, labor costs, material costs, construction delays, and energy costs) may be higher than anticipated. Also, the precise condition of real estate assets may not be known until repositioning is underway. Risks of greater than expected expenses could be associated with tenant removal, building codes, environmental contamination and the enforcement of environmental laws, change in laws related to the licensing and permitting of restaurants and bars, the zoning laws or permitted uses of real estate assets, and land use restrictions or amendments which could prohibit or lessen the contemplated repositioning of a venue. Real estate assets are subject to local zoning regulations and land use controls approved by the local municipalities and other governmental authorities which may change at any time. Restaurants, taverns, bars, brew pubs and other similar venues are subject to various federal, state and local laws which may change at any time. These expenses could substantially reduce the amount of funds available for distribution.

**Tenants and Leases.** Investments which include the opportunity to lease all or any part of such investments to third party tenants are subject to risks associated with defaults on lease payment obligations by such tenants would cause the Fund to lose the revenue associated with that lease and require the Fund to find an alternative source of revenue to pay its mortgage indebtedness and prevent a foreclosure action. If a tenant defaults or declares bankruptcy, the Fund may experience delays in enforcing its rights as a landlord and may incur substantial costs in protecting its investment. Termination of leases also would have a material adverse effect on the Fund's financial condition, results of operations and ability to pay distributions to Investors.

**"Single-User" Facilities.** The Fund may invest in real estate designed or built primarily for a single user that has been identified to occupy a particular location. This specific type of use is known as a "single-user facility." If the user identified for such location fails, or the tenant occupying such location fails to renew its lease or defaults on its lease obligations, the Fund may not be able to readily market a single-user facility to a new tenant without making substantial capital improvements or incurring other significant re-leasing costs. The Fund also may incur significant costs to enforce its rights as a landlord against the defaulting tenant, all of which could adversely affect the Fund's revenues and expenses and reduce the cash available for distribution.

**Governmental Regulation, Including Licenses, Permits and Approval.** The failure to obtain or maintain necessary building permits, or the failure to pass inspections by the local building department or other government agencies, could materially adversely affect the Fund and delay the construction of a venue or prevent the Fund from developing a venue as originally planned.

A property may be subject to local zoning regulations and land use controls approved by the local municipalities and other governmental authorities. These regulations and controls may change at any time, often without notice, and such changes could affect a property and have a material and adverse impact the Fund's financial condition, results of operation and ability to pay distributions to Investors. Of note, the Americans with Disabilities Act ("ADA") and other federal, state, and local laws, rules, and regulations, generally require public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require the Fund to renovate properties. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require the Fund to add other structural features which increase construction costs. Legislation or regulations adopted in the future may impose

further costs and obligations or restrictions on the Fund with respect to improved access by disabled persons. The Fund may incur unanticipated expenses which may be material to its financial condition or results of operations to comply with ADA and other federal, state, and local laws, or in connection with lawsuits brought by the government or private litigants.

**Maintenance and Repair.** The Fund will be relying upon third parties to properly maintain and repair the properties in order to preserve their value. Contractors hired from time to time to maintain and repair properties may not perform their work in an acceptable manner and the contracts pursuant to which such contractors were engaged may not provide Investors with an adequate remedy for any work left unperformed or performed in an unsatisfactory manner.

#### Risks Related to Debt Investments

**Risks of Acquiring Interests in Mortgage Loans.** The Fund may acquire interests in mortgage loans that at the time of their acquisition or thereafter may be non-performing for a wide variety of reasons with a view towards foreclosing on such mortgage loans and acquiring the property securing such mortgage loans. Such non-performing mortgage loans may require a substantial amount of workout negotiations and/or restructuring. If the Fund does foreclose on collateral securing one or more such mortgage loans purchased by the Fund, the foreclosure process will vary from jurisdiction to jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a mortgage loan, including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy or its equivalent, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

**Lack of Operating Control of Underlying Investments.** Prior to the time (or in the event the Fund is unable to) foreclose on any mortgage loan and acquire the property securing such loan, the day-to-day operations of the entities and properties underlying the such mortgage loans in which the Fund invests will be the responsibility of the owners and developers of such entities and properties. Although the General Partner will be responsible for monitoring the performance of such mortgage loan investments there can be no assurance that the owners and developers will be able to operate the underlying entities or properties in accordance with their business plans or the expectations of the Fund.

**Lender Liability Considerations; Equitable Subordination.** A number of judicial decisions in the United States have upheld the right of borrowers to sue lenders on the basis of various evolving legal theories (collectively, termed “**lender liability**”). Generally, lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower, its other creditors or its beneficial owners. Although the Fund does not intend to engage in conduct that it expects would form the basis for a successful cause of action based upon lender liability, the potential for such cause of action exists. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Although the Fund does not intend to engage in conduct that expects would form the basis for a successful cause of action based upon the equitable subordination doctrine, the potential for such a cause of action exists.

**General Credit Risks.** The value of any underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Fund cannot guarantee the adequacy of the protection of its interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Fund cannot assure that claims may not be asserted that might interfere with enforcement of the rights of the holder(s) of the relevant debt. In the event of a foreclosure, the liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan or the Fund’s investment in such loan, resulting in a loss to the Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss. The Fund may not have the right to proceed directly against obligors on such loans.

**Bank Debt Transactions.** Special risks associated with investments in bank loans and participations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so-called lender-liability claims by the issuer of the obligations, see "Lender Liability Considerations; Equitable Subordination" above, (iii) environmental liabilities that may arise with respect to collateral securing the obligations, and (iv) limitations on the ability of the holder of the interest affecting the Fund to directly enforce its rights with respect to participations. Successful claims in respect of such matters may reduce the cash flow and/or market value of certain of the Fund's assets. Additionally, adverse credit events with respect to any underlying entity or property, such as missed or delayed payment of interest and/or principal, bankruptcy, receivership or distressed exchange, can significantly diminish the value of the Fund's investment in any such entity or property.

**Usury Limitations.** Interest charged on loans owned by the Fund may be subject to usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

**Second Lien and Unsecured Loans.** The Fund may also invest in second-lien and unsecured bank loans. In addition to the special risks generally associated with investments in bank loans described above, the Fund's investments in second-lien and unsecured bank loans will entail additional risks, including (i) the subordination of the Fund's claims to a senior lien in terms of the coverage and recovery from the collateral and (ii) with respect to second-lien loans, the prohibition of or limitation on the right to foreclose on a second-lien or exercise other rights as a second-lien holder, and with respect to unsecured loans, the absence of any collateral on which the Fund may foreclose to satisfy its claim in whole or in part. In certain cases, therefore, no recovery may be available from a defaulted second-lien loan.

**Mezzanine Loans.** The Fund may invest in mezzanine debt interests in entities and properties whose capital structures have significant leverage ranking ahead of the Fund's investments. While the General Partner anticipates that the Fund's investments will usually benefit from the same or similar financial and other covenants as those enjoyed by the leverage ranking ahead of the Fund's investments and will usually benefit from cross-default provisions, some or all of such terms may not be part of particular investments. The General Partner anticipates that the Fund's usual security for its investments in such cases will be pledges of ownership interests, directly and/or indirectly, in a property-owning entity, and in many cases the Fund may not have a mortgage or other direct security interest in the underlying real estate assets. Moreover, it is likely that the Fund will be restricted in the exercise of its rights in respect of its investments by the terms of subordination agreements between it and the debt ranking ahead of the mezzanine capital. Accordingly, the Fund may not be able to take the steps necessary to protect such investments in a timely manner or at all and there can be no assurance that the rate of return objectives of the Fund or any particular investment will be achieved. To protect its original investment and to gain greater control over the underlying assets, the Fund may need to elect to purchase the interest of a senior creditor or take an equity interest in the underlying assets, which may require additional investment by the Fund.

**Risk of Default or Insolvency by Investments.** The leveraged capital structure of the entities and properties underlying the investments in which the Fund may invest will increase their exposure to adverse economic factors (such as rising interest rates, competitive pressures, downturns in the economy or deterioration in the condition of the entity or property) and to the risk of unforeseen events. This leverage may result in more serious adverse consequences to such underlying entities or properties (including to overall profitability or solvency) in the event these factors or events occur than the consequences for less leveraged entities or properties. For example, rising interest rates may significantly increase interest expense, or a significant market downturn may affect ability to generate positive cash flow, in either case causing an inability to service outstanding debt, which may include the debt investments held by the Fund. If any underlying entity or property cannot generate adequate cash flow to meet debt obligations, it may default on its loan agreements or be forced into bankruptcy. As a result, the Fund may suffer a partial or total loss of invested capital, particularly in the case of any mezzanine or second-lien debt investments of the Fund, in light of the subordinated position of such investments.

## Risks Related to REITs

**Failure to Maintain REIT Qualification.** The General Partner may organize one or more entities treated as a real estate investment trust for U.S. federal income tax purposes (each, a "REIT") through which the Fund may make investments. Qualification as a REIT involves the application of highly technical and complex provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), for which there are only limited judicial or administrative interpretations, and the determination of various factual matters and circumstances not entirely within the REIT's control. If any REIT fails to maintain its qualification as a REIT in any taxable year, and certain relief provisions do not apply, the REIT would be subject to tax on its taxable income at regular corporate rates. In such an event, distributions by the REIT to the Fund or the investors would, to the extent of earnings and profits, be taxable to the investors as ordinary dividends.

**REIT Ownership Restrictions.** The governing documents of each REIT in which the Fund invests, if any, will contain ownership restrictions that generally restrict the beneficial ownership of interests in a REIT to 9.8% of such interests; provided, that the managing member of a REIT may, in its sole discretion, waive the ownership restrictions with respect to an investor. The purpose of the ownership restrictions is to assist in protecting and preserving a REIT's status as a REIT under the Code. For an entity to qualify as a REIT under the Code, not more than 50% in value of the entity's outstanding shares may be owned, directly or indirectly (including through a partnership), by five or fewer individuals (as specially defined in the Code to include certain entities) at any time during the last half of any taxable year subsequent to the first year for which the entity's REIT qualification is effective. The ownership restrictions generally permit five persons to acquire (indirectly through the ownership of an interest in the Fund), up to a maximum of 9.8% each, or an aggregate of 49% of the outstanding interests of a REIT and, thus, assist such REIT in protecting and preserving its status as a REIT under the Code.

If any person's ownership of interests in the Fund were to cause that person to indirectly own outstanding interests in a REIT in violation of the ownership restrictions or otherwise cause a REIT to fail to qualify as a REIT under the Code, the Fund's, as applicable, shares in such REIT would constitute "Excess Shares" to the extent necessary to cause compliance with the ownership restrictions or permit such REIT to retain its status as a REIT under the Code. If the Fund's shares in a REIT were to become Excess Shares as a result of the actions of any investor, the Fund's right to distributions with respect to those shares would be significantly reduced. Therefore, the partnership agreement contains provisions that generally reduce any such partner's distributions by the amount the Fund's, as applicable, distributions were reduced as a result of the Excess Shares provisions. Each investor will be required to provide to the Fund such information as the General Partner may reasonably request to determine the effect of such investor's ownership of interests in the Fund on the ability of a REIT to qualify as a REIT under the Code.

**REIT Tax and Legislative Risks Associated with REITs.** There can be no assurance that any potential REIT's expected election to be taxed as a REIT for U.S. federal income tax purposes can be made, or, if made, can be continued. If a REIT fails to so qualify or fails to maintain its qualifications, it will be subject to tax, including applicable alternative minimum tax, on its taxable income at regular corporate rates. Although the Fund or a parallel investment vehicle may, but is not obligated to, hold certain REIT qualifying assets through one or more REITs, there can be no assurance that U.S. federal laws and regulations pertaining to REITs will not change before any REIT can be established and qualify, or, once established and qualified, that such laws and regulations would not have a retroactive effect on any or all such REITs. As a result of any such changes, it may be impracticable for the Fund and/or any such parallel investment vehicle to hold assets through a REIT.

**Taxable REIT Subsidiaries.** A REIT may form one or more subsidiaries that elect to be treated as a "taxable REIT subsidiary" of such REIT for U.S. federal income tax purposes. Each such taxable REIT subsidiary will be taxable as a regular corporation, and may be limited in its ability to deduct any interest payments made to its parent REIT. In addition, the REIT will be subject to a 100% penalty tax on certain amounts received from its taxable REIT subsidiary if the economic arrangements among the REIT, its tenants and such taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties. To the extent the REIT or a taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, there will be less cash available for distribution to the investors.

## **Conflicts of Interest**

Investments in the Funds are subject to various conflicts of interest. Certain of these actual or potential conflicts of interest are highlighted below and in Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" herein. Existing and prospective investors should also refer to the applicable Governing Documents for information regarding conflicts of interests.

**Conflicts Generally.** Sterling Bay Advisers and the other General Partners are owned and/or affiliated with several groups which own and/or control other entities dedicated to real estate investment and management of real estate assets. In certain instances, conflicts of interest may arise which may be resolved in a manner adverse to a Fund and its ability to achieve its investment objectives. In connection with managing investments and investments funds other than the Fund, the principals expect to spend a portion of their business time and attention pursuing investment opportunities for other investment funds and other than on behalf of the Fund. The principals and Sterling Bay Advisers' investment staff will continue to manage and monitor such investment funds and investments. Sterling Bay Advisers believes that the significant investment of the principals in the Funds, as well as the principals' interest in the carried interest, operate to align, to some extent, the interest of the principals with the interest of the partners, although the principals have or may have economic interests in such other investment funds and investments as well and receive management fees and carried interests relating to these interests. Such other investment funds and investments that the principals may control or manage may compete with the Funds or companies acquired by the Funds. Following the expiration of the applicable investment period, the principals will continue to manage a Fund's

investments, but also may and likely will focus their investment activities on other opportunities and areas unrelated to such Fund's investments. Certain investments may be allocated between the Fund and any other investment funds sponsored by Sterling Bay in a manner as set forth in the partnership agreement.

The principals currently, and may in the future, manage several other investment funds besides the Funds and investments similar to those in which the Funds will be investing and may direct certain relevant investment opportunities to those investment funds and investments. Over time, certain investment opportunities suitable for the Funds are likely also to be suitable for other investment funds sponsored by Sterling Bay. In determining which investment funds should participate in such investment opportunities, subject to the applicable partnership agreements, Sterling Bay and the principals are subject to potential conflicts of interest among the investors in the Funds and investors in the other investment funds sponsored by Sterling Bay and the principals. To determine whether the Fund or other investment funds sponsored by Sterling Bay will participate in the relevant investment opportunity, the General Partner generally assesses whether an investment opportunity is appropriate for each relevant fund based on the terms of such fund's limited partnership agreement. The Fund may invest together with other funds advised by an affiliated adviser of Sterling Bay Advisers, in the manner set forth in the relevant partnership agreement. The General Partner will determine the allocation of investment opportunities among funds in a manner that it believes is fair and equitable consistent with the General Partner's obligations and may take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which the Fund will invest exceeds an amount appropriate for the Fund, such excess may also be offered to one or more potential investors.

The General Partner's allocation of investment opportunities among the Fund and any of the other investment funds sponsored by the General Partner may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to the Fund relative to one or all of the other investment funds, or vice versa. While the General Partner will allocate investment opportunities in a way that it believes in good faith is fair and equitable to the Fund, there can be no assurance that the Fund's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which the General Partner may be subject did not exist.

In addition, Sterling Bay, including other investment funds sponsored by it and/or the principals, have made, and may in the future make, investments in the Fund's investments or in certain tenants of the Fund's investments. While Sterling Bay intends that leases for such tenants be provided on competitive and market terms, such lease terms will not be determined through arms' length negotiation and may be more favorable to such tenants. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to the Fund.

Sterling Bay Advisers and the General Partners have instituted a program under which investments owned by the Funds may participate in purchasing, vendor or similar arrangements with Sterling Bay Advisers and other investments, including with respect to the purchase of insurance. Program participants expect to receive discounts negotiated with various vendors and service providers on a group-wide basis. Sterling Bay Advisers allocates fees and costs for such programs among the relevant investments. Sterling Bay also may participate in the program in exchange for an allocable portion of such fees and costs, and receive similar benefits and discounts as the investments participating therein. No such amounts will result in additional offsets to the Asset Management Fee. Sterling Bay Advisers believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to investments (which is expected to be to the benefit of the Funds) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market.

Sterling Bay Advisers' principals and employees invest in other private equity investment vehicles (including single investor co-investments) managed by other advisers. In some cases, Sterling Bay or the Funds may purchase investments that are owned by such other investment vehicles, that may indirectly benefit any principals or employees. In some cases, private equity professionals or other services professionals from other investment firms may also be investors in the Funds.

Sterling Bay may also, from time to time, employ personnel with pre-existing ownership interests in investments owned by the Funds or other funds or investment vehicles advised by Sterling Bay; conversely, former personnel or executives of Sterling Bay may serve in significant management roles at Fund investments or service providers recommended by the General Partners. Similarly, Sterling Bay and/or their personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons (including principals) or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Sterling Bay, the Funds, the Funds' investments and/or other funds or other investment vehicles Sterling Bay advises. Sterling Bay may have a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or an investment owned by the Funds if such recommendation, for example,

is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more funds Sterling Bay advises, will provide Sterling Bay information about markets and industries in which Sterling Bay operates (or is contemplating operations) or will provide other services that are beneficial to Sterling Bay. Sterling Bay may have a conflict of interest in making such recommendations, in that Sterling Bay has an incentive to maintain goodwill between themselves and the existing and prospective investments for the Funds and other funds and investment vehicles that Sterling Bay advises, while the products or services recommended may not necessarily be the best available to the investments held by the Funds.

Over the life of the Fund, the General Partner generally expects to exercise its discretion to recommend to any Fund or to an investment thereof that it contracts for services with various service providers, potentially including, among others: (i) Sterling Bay (or an affiliate thereof) and at rates determined or substantively influenced by Sterling Bay; (ii) an entity with which Sterling Bay or its affiliates or current or former members of their personnel has a relationship or from which such person derive a financial or other benefit; or (iii) a Limited Partner (or a limited partner of another fund) or its affiliates. This subjects Sterling Bay to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance investment performance, Sterling Bay may have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that Sterling Bay, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to Sterling Bay, its affiliates, the Funds and/or other investments sponsored by Sterling Bay), may favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not Sterling Bay has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

**Institutional Partners' Rights to Participate in Sterling Bay Investments in Certain Geographical Areas.** Sterling Bay has entered into various agreements with certain institutional investors ("**Institutional Investors**") which require that Sterling Bay and any affiliate (which would include the Funds and their subsidiaries) to offer such Institutional Investors the opportunity to participate in any acquisition of, or other controlling investment in, any commercial property or properties within certain defined geographical areas. Although Sterling Bay is under no obligation to offer Fund investors any co-investment opportunities, the existence of Institutional Investors' preemptive rights to investments in the defined geographical areas may further limit co-investment opportunities for investors in Funds.

**Co-Investment Opportunities.** When possible and appropriate, Sterling Bay may, at its sole discretion, but will be under no obligation to, provide co-investment opportunities to one or more third parties and/or investors in the Funds pursuant to which such third parties and/or investors in the Funds will be permitted to invest in Fund investments alongside the Fund. Co-investment opportunities, if offered by Sterling Bay, will be on such terms as Sterling Bay determines in its sole discretion, including management fees and carried interest to Sterling Bay, and may take the form of senior debt, subordinated debt or equity to be invested alongside the Fund. Generally, Sterling Bay will select which investors or other persons are permitted to co-invest based on various factors, including: the ability and expected interest of the investor to participate in the applicable investment and meet the desired due diligence, approval and funding timetable; prior experience with the investor, as well as the investor's general reputation and experience as co-investor; Sterling Bay's anticipated alignment of interest with the prospective investor; any expertise or experience of the investor that is relevant to or otherwise of strategic value to Sterling Bay, the Funds or the particular investment; any anticipated legal or regulatory constraints involving the investor; and any other reason for including such investor or person as determined by Sterling Bay in its sole discretion.

Fees and expenses incurred for transactions not consummated are borne by a Primary Fund either directly or, in the case of existing Fund investments, indirectly based on the Primary Fund's interest in such underlying investment. Subject to the provisions of any applicable Governing Documents, Sterling Bay expects pursuit costs and due diligence costs incurred in conjunction with possible co-investments generally will be paid solely by the Primary Fund and will not be shared by co-investors or joint venture partners, except that a pro rata share of pursuit and due diligence costs may be allocated to a single purpose Co-Invest Fund when a transaction is consummated or if the Co-Invest Fund is established by the time the deal breaks.

## **ITEM 9 DISCIPLINARY INFORMATION**

Sterling Bay Advisers and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Sterling Bay Advisers, the filing adviser, is affiliated with the General Partners, each of which is an investment adviser registered in accordance with SEC guidance under the Advisers Act pursuant to Sterling Bay Advisers' registration. These affiliated investment advisers operate as a single advisory business together with Sterling Bay Advisers and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions. All of these Advisers are under common control and subject to Sterling Bay Advisers' code of ethics and compliance programs adopted pursuant to the requirements of the Advisers Act.

Andy Gloor and Matt Menna, two of the principals of Sterling Bay, own and control Four Corners Capital Advisers, LLC, an exempt reporting adviser and sponsor of private equity funds investing in hospitality ventures. Some of Sterling Bay Advisers' principals and employees invest in and serve on the boards of companies that are not targets of the Funds.

## ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### Code of Ethics

Sterling Bay Advisers has adopted the Sterling Bay Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Sterling Bay's principals and employees involved in providing investment advisory services to private investment funds, as set out in the Code (the "**Covered Personnel**"), and addresses conflicts that arise from the personal trading of such Covered Personnel. The Code requires the Covered Personnel to report their personal securities transactions, prohibits or requires pre-clearance for directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Covered Personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Chief Compliance Officer. A copy of the Code will be provided, free of charge, to any investor or prospective investor upon written request to Michael Keesey, Sterling Bay's Chief Compliance Officer, at 333 N. Green, Suite 1100, Chicago, IL 60607. Personal securities transactions by Covered Personnel are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

Sterling Bay Advisers and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds and may give advice and recommend investments to vehicles which may differ from advice given to, or investments recommended or bought for, the Funds even though their investment objectives may be the same or similar.

### Participation or Interest in Client Transactions

Principals and employees of Sterling Bay and its affiliates may directly or indirectly own an interest in the Primary Funds or certain Co-Invest Funds. To the extent that Co-Invest Funds exist, such vehicles may invest in one or more of the same investments as the Funds.

Andy Gloor and Matt Menna, two of the principals of Sterling Bay, own and control Four Corners Capital Advisers, LLC, an exempt reporting adviser and sponsor of private equity funds investing in hospitality ventures, and its affiliates which own, develop and operate hospitality ventures (collectively, "**Four Corners**"). Sterling Bay expects the Funds and Four Corners' affiliated entities to enter into transactions in which the parties may have conflicting interests. Such transactions may include, but are not limited to, a lease of real estate owned by a Fund to a Four Corners' affiliated entity or a contract between a Fund and a Four Corners' affiliated entity for the food and beverage service to a Fund-owned property in which the Four Corner's affiliated entity will own the food and beverage business, including, for example, a management agreement under which a Four Corners' affiliated entity collects a management fee for providing food and beverage service in a Fund-owned property.

The General Partners intend for transactions between the Funds and affiliates, on the one hand, and Four Corners and affiliates, on the other hand, to be on reasonable terms as determined by the General Partner in its sole good faith judgment. However, the General Partners do not intend to obtain third-party opinions of reasonableness as to the terms of the transactions between Sterling Bay and Four Corners and their respective affiliates. Further, although the General Partners may present a transaction to a Fund's advisory board for its review prior to such Fund's commitment to a transaction, the General Partners are under no obligation to do so, except as expressly set forth in a particular Fund's Governing Documents. More favorable terms for such transaction may be available to the Funds if

the counterparty is a third party without any common ownership and control, rather than a Four Corners entity. Investors in the Funds consent to such transactions with Four Corners prospectively by virtue of their investment.

In addition, certain Funds have and may in the future acquire or dispose of investments through transactions with affiliates of or other Funds advised by Sterling Bay ("**Manager-Related Parties**"). The General Partners intend for transactions between a Fund and Manager-Related Parties to be on reasonable terms as determined by the General Partner in its sole good faith judgment and in accordance with the Advisers Act, including Section 206 thereof. However, the General Partners may not obtain third-party opinions of reasonableness as to the terms of the transactions between a Fund and Manager-Related Parties. Further, although the General Partners may present the transaction to a Fund's advisory board for its review prior to the Fund's commitment to the transaction, the General Partners are under no obligation to do so, except as expressly set forth in a particular Fund's Governing Documents. In certain circumstances, Sterling Bay may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Fund under then-current market conditions.

In particular, Sterling Bay Advisers anticipates that certain investments may be acquired by the Funds from Manager-Related Parties and that interests in certain Funds' investments may be acquired from Manager-Related Parties in connection with certain events as set forth in the Governing Documents. With respect to certain transactions with certain Funds, transactions in accordance with Sterling Bay Advisers' valuation policy or transactions with net value of less than \$500,000, Sterling Bay does not intend to seek Advisory Board approval and may or may not obtain additional third-party opinions of reasonableness respecting the terms of same.

Further, from time to time, Sterling Bay may relocate tenants from a property owned by the Fund to a property owned by a Manager-Related Party, or vice versa. In such circumstances, the Fund that owns/operates the property where the tenant relocates is expected to compensate the Fund that owns/operates the property at which the tenant was originally located. Although Sterling Bay believes that such payment will be appropriate under the circumstances, the terms of such agreement are not expected to be negotiated on an arms' length basis and may not fully compensate the owner/operator of the original property for the loss of the tenant.

### **Allocation of Investments**

Subject to any restrictions in the applicable Governing Documents, Sterling Bay or Four Corners may invest in real estate, and a Fund that is currently investing may not be offered the opportunity to participate in such investments. Andy Gloor and Matt Menna, who control the investments of Four Corners, may choose to allocate investment opportunities that fit the investment strategy of a Fund to Four Corners instead. For example, and without limitation, Four Corners may purchase a hotel or other hospitality venue and the Fund may not participate in such acquisition. When making allocation decisions, Sterling Bay Advisers will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with Sterling Bay Advisers' obligations under the Governing Documents and any applicable allocation policies adopted by Sterling Bay Advisers.

### **Personal Trading**

Sterling Bay Advisers and its affiliated persons may come into possession of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Sterling Bay Advisers and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Sterling Bay Advisers.

Accordingly, should Sterling Bay Advisers or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Sterling Bay Advisers would be prohibited from communicating such information to clients, and Sterling Bay Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following its policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Sterling Bay personnel serving as directors of public companies and may restrict trading on behalf of clients. Due to these restrictions, the Funds may not be able to initiate a transaction that they otherwise might have initiated and may not be able to sell an investment that they otherwise might have sold.

## **ITEM 12 BROKERAGE PRACTICES**

Sterling Bay does not trade in publicly traded securities. Accordingly, Sterling Bay does not have, nor does it anticipate having, obligations regarding the trading practices of best execution, trade aggregation, or soft dollars (i.e.,



an arrangement where securities transactions are executed through a broker-dealer that charges more than the lowest available commission rate in exchange for the provision of brokerage and research services).

Section 206 of the Advisers Act requires Sterling Bay Advisers to act in the best interests of its Funds and investors. Generally, the Funds' investments consist of private real estate transactions (e.g., purchases, sales, leases, joint ventures or financings). In such privately negotiated transactions, Sterling Bay may engage the services of a real estate broker for the purchase, sale, or lease of a property or a mortgage broker for the financing or refinancing of debt on a property. When considering retaining the services of such brokers, Sterling Bay will consider such factors as the broker's industry experience, its reputation, and its capability based on previous and pending transactions effected for Sterling Bay, among others.

#### **ITEM 13 REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Sterling Bay Advisers closely monitors properties in which each Fund invests, and the Sterling Bay Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

The Funds provide to their investors (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each limited partner's tax return and (iii) annual reports providing a narrative summary of the status of each investment. In addition to the information provided to all investors, Sterling Bay Advisers has provided and may in the future provide certain investors (e.g., in connection with co-investment opportunity) with additional information or more frequent reports that other investors will not receive.

#### **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

As described in Item 5 "Fees and Compensation", Sterling Bay Advisers and its affiliates may provide certain services to the Funds or their investments and may receive Service Compensation from these companies in connection with such services. Investors do not share in any of Service Compensation paid to Sterling Bay.

From time to time, Sterling Bay Advisers may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming an investor in one of the Funds. In certain cases, any fees and expenses payable to any such placement agents will borne by Sterling Bay Advisers directly or if applicable, indirectly through an offset against the Management Fee. In other cases, future placement arrangements may be a flat fee or based on a percentage of commitments or investment of an investor to a particular Fund in accordance with such Fund's Governing Documents.

#### **ITEM 15 CUSTODY**

Although Sterling Bay Advisers and the General Partners are deemed to have custody of the underlying assets of the Funds they manage, they rely on the "pooled investment vehicles" exemption from the reporting and surprise audit obligations imposed by the SEC's custody rule.

Sterling Bay Advisers maintains custody of the Funds' assets held in the applicable Fund's name with the following qualified custodians, to the extent required by current SEC standards and guidance:

- Bank of America, N.A.
- The Northern Trust Company

#### **ITEM 16 INVESTMENT DISCRETION**

Sterling Bay has discretionary authority to manage investments on behalf of the Funds in accordance with each Fund's Governing Documents. As a general policy, Sterling Bay does not allow clients to place limitations on this authority. Pursuant to the terms of the each Fund's Governing Documents, however, Sterling Bay has entered and may in the future enter into "side letter" arrangements with certain limited partners that have the effect of establishing rights under or altering or supplementing the applicable Fund's limited liability company operating agreement or limited partnership agreement or an investor's subscription agreement. Such rights or alterations could be regarding economic terms, fee structures, excuse rights, information rights, co-investment rights, or transfer rights. Investment advice is provided directly to each Fund and not individually to the limited partners of any Fund.

Sterling Bay assumes this discretionary authority pursuant to the terms of the applicable Funds' Governing Documents and powers of attorney, if any, executed by the investors in the Funds.

#### **ITEM 17 VOTING CLIENT SECURITIES**

Sterling Bay Advisers has adopted the Sterling Bay Advisers' Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Funds' investments. Sterling Bay Advisers does not expect to enter into any proxy voting arrangements nor does it expect to have an opportunity to vote proxies on behalf of its Funds. Sterling Bay believes its interests are aligned with those of its Funds' investors through the Sterling Bay's principals' beneficial ownership interests in the Funds; therefore Sterling Bay Advisers does not expect to seek the approval or direction of investors in the Funds in the unlikely event a vote of securities owned by any Fund is required. In the event there is a conflict of interest between Sterling Bay Advisers and a Fund in voting proxies, the Proxy Policy provides that Sterling Bay Advisers address the conflict using certain procedures, including by seeking the approval or concurrence of the Fund's limited partner advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. A copy of the Proxy Policy will be provided, free of charge, to any investor or prospective investor upon written request to Michael Keeseey the Sterling Bay Chief Compliance Officer, at 333 N. Green, Suite 1100, Chicago, IL 60607.

#### **ITEM 18 FINANCIAL INFORMATION**

Sterling Bay Advisers does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.