

FORM ADV BROCHURE

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Part 2A

As of 09/09/2022

Item 1: Cover Page

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This brochure provides information about the qualifications and business practices of TerraCap Management LLC. If you have any questions about the contents of this brochure, please contact us. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about TerraCap Management, LLC, is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for TerraCap Management, LLC is 169695.

Registration with the SEC and other state securities authorities as a registered investment adviser does not imply a certain level of skill or training.

Item 2: Summary of Material Changes

Steven M. Harper, II has resigned from his position as CCO effective September 9, 2022. The interim Chief Compliance Officer is Timothy M. Green Jr.

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Item 4: Advisory Business

Who We Are

TerraCap Management, LLC (referred to herein as “we,” “our,” “us,” or TerraCap Management”) is an investment advisor in the State of Florida. We are governed by our owners and principals, Walter S. Hagenbuckle and Robert M. Gray. The only owners of TerraCap Management holding more than 25% are Mr. Hagenbuckle and Mr. Gray.

Services We Offer

We serve as the manager and investment advisor to four pooled investment vehicles, three of which consist of two co-mingled funds and one of those commingled funds serves as the master fund in a master-feeder arrangement; TerraCap Partners LP, TerraCap Partners II (Institutional) LP, TerraCap Partners II (HNW) LP, TerraCap Partners III (HNW) LP, TerraCap Partners III (Institutional) LP, TerraCap Partners IV (Institutional) LP and TerraCap Partners IV (HNW) LP, TerraCap Partners V (Institutional) LP and TerraCap Partners V (HNW) LP (each a “Fund” or collectively the “Funds”). TerraCap Partners IV (Institutional) LP is the master fund in a master-feeder arrangement. TerraCap Partners IV (ERISA) LP is the feeder fund in the aforementioned arrangement. TerraCap Partners V (Institutional) LP is the master fund in a master-feeder arrangement. TerraCap Partners V (ERISA) LP is the feeder fund in the aforementioned arrangement. We may serve as manager and investment advisor to additional pooled investment vehicles in the future. Our investment decisions are made in compliance with the investment guidelines disclosed in the offering materials for the Funds. Each potential investor in the Funds receives a complete set of offering materials prior to investing in the Funds. We do not tailor our advisory services to the individual needs of the investor.

We presently seek investment opportunities in the form of equity and debt investments in real estate properties, primarily consisting of commercial real estate in the southern United States. Investment decisions are based on our assessment of the risks associated with each investment, the amount of capital committed, the potential for income and profits from such investments, and the likelihood of a successful exit from the investment.

We will manage the business, investment and financial affairs of the Funds, including the exercise of appropriate care and control of all business decisions during the term of the Funds. In performing our investment services, our primary function will be to identify, analyze, and select potential investments for the Funds. We will also monitor the financing, development, operations, and ultimate sale and/or liquidation of investments in the Funds.

We establish such bank and securities accounts, borrowing arrangements and other accounts or facilities as we determine necessary or desirable in effectuating investment transactions on behalf of the Funds and maintain the Funds’ records and files relating to their investments. We also prepare, or cause to be prepared, periodic reports detailing the Funds’ holdings and such other relevant financial information as we determine necessary.

Similar Investments and Other Disclosures

Unless prior written consent is received from holders of a majority of the Fund then, until the time at which at least 75 percent of a Fund’s capital contributions have been invested in or otherwise

committed (“Restriction Period”), neither the Manager, the General Partner or their affiliates will close on any other investment fund that has as its primary objective the identification, qualification, acquisition, entitlement, management, marketing and sale of real estate assets located primarily in the southern United States. If a competing fund is organized after the Restriction Period, then, until the time at which at least 90 percent of the Partnerships’ capital contributions have been invested (“Full Investment”), a competing fund may not close on any Investment.

The Funds will not invest in, acquire Investments from, nor sell Investments to, any entity in which the Manager, the General Partner or any of their affiliates has either (a) 2.5 percent or more of the outstanding equity interests or (b) a pre-existing economic interest of more than \$50,000.

The Funds may co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling or partially-controlling interests in certain investments. Although the Funds may not have control over these investments and therefore, have a limited ability to protect its position therein, TerraCap expects that appropriate rights will be negotiated to protect the Funds’ interests.

Nevertheless, such investments involve risks not present in investments where a third party is not involved, including the possibility that a third party partner or co-venture will have financial difficulties resulting in a negative impact on such investment, will have economic or business interests or goals which are inconsistent with those of the Funds, or be in a position to take action contrary to the Funds’ investment objectives.

In certain other investments, the Funds exercise control. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristics of business ownership may be ignored. If these liabilities were to arise, the Funds might suffer a significant loss.

More detailed information on similar investments, competing funds, co-investments, and potential conflicts is available in the offering documents of each current Fund.

It is our intention and goal to always put the interest of the client and underlying investors above the interest of the Firm, or any of its related persons.

The Firm’s principals and Funds’ General Partners (individually and collectively, the “GP”) have primary responsibility for resolving conflicts of interest involving the Funds. All principal and GP decisions are documented, including the reasoning, factors considered, and supplemental data collected.

While conflicts could materially and adversely affect the Funds, the principals and GPs, in their sole judgment and discretion, will attempt to mitigate such potential adversity by the exercise of business judgment in an attempt to fulfill its fiduciary obligations. TerraCap Management cannot assure that such an attempt will prevent adverse consequences resulting from the numerous potential conflicts of interest.

Assets Under Management

We have approximately \$1,223,378,689 in discretionary regulatory assets under management as of the filing of our Form ADV.

We do not manage any assets on a non-discretionary basis. Back-up calculations are available upon request.

Item 5: Fees and Compensation

We receive both a management (or advisory) fee, based on the capital commitments or capital under management, whichever is greater, in each respective Fund, and an incentive allocation for managing each Fund. For TerraCap Partners, LP and TerraCap Partners II, LP the management fee is 2.00% per year calculated against the Fund's aggregate capital under management during the Fund's investment period; after approval of the limited partners, the management fee was reduced from 1.75% to 1.5% per year calculated against the Fund's aggregate capital under management during the Fund's investment period of TerraCap Partners III Funds as of November 29, 2014. TerraCap Partners IV will also collect a management fee of 1.5% per year calculated against the Fund's aggregate invested capital under management during the Fund's investment period. TerraCap Partners V will collect a management fee of 1.5% per year calculated against the Fund's aggregate committed capital under management during the investment period and 1.5% per year on invested capital thereafter. In all cases, the management fee is payable quarterly based on the capital commitments or invested capital under management as of first day of the calendar quarter.

As the manager of pooled investment vehicles, each investor irrevocably appoints us as an attorney-in-fact with authority to establish, manage and maintain all bank, mutual fund and securities brokerage accounts as needed for the purposes of the Funds' investments. In this capacity, we have the authority to withdraw the management fees, carried interest, expenses and capital from each Fund's bank account.

For qualifying investors, each respective General Partnership of a fund receives a carried interest in the Fund generally equal to 20% of the profits generated by the Fund after the investors have received aggregate distributions from the Fund equal to their total capital contributions. Certain agreements are entered into with initial investors that decrease the Fund's carried interest rate with respect to that investor (see **Side Letters**).

If, following the dissolution, winding up and termination of the current Funds and the distribution of all or substantially all of the Funds' assets, distributions of Carried Interest to the General Partner have been made with respect to any Limited Partner and either (i) the excess of (A) the cumulative distributions to such Limited Partner of Investment Proceeds, over (B) the aggregate amount of Capital Contributions made by such Limited Partner (the amount of such excess being the "Cumulative Net Distributions" with respect to such Limited Partner) do not represent at least the Preferred Return, or (ii) the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner exceeds 20% of the sum of (A) the Cumulative Net Distributions with respect to such Limited Partner, and (E) the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner (such excess, the "Excess 20% Amount"), in each case determined after giving effect to all transactions through the Clawback Determination Date, then the General Partner shall be obligated to return or cause to be paid promptly to the Fund, an amount equal to the lesser of (I) the Final Clawback Amount (as defined

below) with respect to such Limited Partner and (II) the After-Tax Amount of the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner.

This clawback provision is presented in more detail in each current Fund's PPM.

These fees will be reduced or adjusted by agreement in limited circumstances.

Other Costs Involved

In addition to our management fees explained above, each Fund pays certain expenses associated with its investments. These fees include day-to-day administrative and operating expenses of the Fund, including due diligence expenses associated with potential investments, fees and expenses of real estate sponsors, and fees and expenses of developers and property managers. Additional details related to these costs are provided in the Funds' Private Placement Memoranda.

The Fund will pay, or reimburse the General Partner and the Investment Manager (and their respective affiliates) for, all Operating Expenses incurred by any of them on behalf of the Fund. The General Partner generally expects to allocate Operating Expenses among Investors in proportion to their Capital Commitments. Notwithstanding the foregoing, if the General Partner determines that it is equitable to specially allocate any Operating Expenses to an Investor or group of Investors, the General Partner will have the authority to make that allocation. Operating Expenses include, among other items, the following fees and expenses relating to the business and investment activities of the Fund: (a) administrative expenses related to the operation of the Fund, including the fees and expenses of accountants, lawyers, third-party administrators and other professionals and service providers incurred in connection with the Fund's annual audit, data processing, investment-level management and servicing, Funding Notices, Investor recordkeeping, legal, compliance, financial reporting, legal opinions, tax planning, tax projections, tax strategy and tax return preparation, as well as the expenses associated with the preparation and distribution of reports; (b) fees, costs and expenses, if any, incurred in evaluating, negotiating, structuring, underwriting, acquiring, appraising, financing, refinancing or otherwise dealing with investments pursued for the Fund (whether or not the Fund actually acquires such investments), including travel costs (such as airfare, meals, lodging, parking and rentals), legal, due diligence, real estate related costs, reporting, projections, valuation, tax and accounting expenses, printing expenses, subscriptions to potential investor services, placement fees and other fees and out-of-pocket costs related thereto; (c) fees, costs and expenses, if any, with respect to rendering financial assistance to or arranging for financing for the Fund, any subsidiary thereof or the Fund's investments; (d) fees, costs and expenses, if any, incurred in relation to the acquisition, holding, developing, monitoring, operating, management, appraising, financing, refinancing, disposing of or otherwise dealing with investments, including any travel (such as airfare, meals, lodging, parking and rentals), legal, audit, financing, appraisal, insurance consulting, custodial, brokerage, inspection, indemnification and accounting expenses, taxes, licenses, administrative expenses, advertising costs and expenses, property operating expenses (including office supplies, leases, equipment and appliances, printing, postage, telecommunications and technology equipment and services (including computer equipment, data and data management services, data storage systems and data center space, cloud-based systems, software, terminals, peripherals, servers and other hardware), insurance, janitorial expenses, capital expenditures and improvements on properties, security services, maintenance and repair expenses and utilities), fees and expenses of third party professionals and service providers with respect to the investments, compensation of employees employed by the investments (including as applicable base salaries, periodic, discretionary bonuses and occupational benefits and perquisites (including health insurance plans and premiums and

retirement plans)), taxes and licenses, dues and subscriptions, and other fees and out-of-pocket expenses related thereto; (e) interest expenses, making temporary investments, real estate commissions and other investment costs incurred by or on behalf of the Fund; (f) fees, costs and expenses incurred in organizing, forming and maintaining any alternative investment vehicles or subsidiaries or any other entity formed to facilitate the Fund's investment objective and all fees, costs and expenses incurred in connection with the offering of Interests following the Initial Closing Date; (g) taxes, fees and other equivalent government charges levied against the Fund, any investment or the income thereof, fees of auditors, counsel and other advisors of the Fund, premiums for insurance protecting the Fund, the General Partner, the Investment Manager and other Indemnified Parties and any litigation costs of the Fund; (h) Indemnification Expenses incurred pursuant to the Partnership Agreement or related to any investment of the Fund and any other extraordinary administrative or operating fees or expenses; (i) the costs of compliance with applicable laws and regulations of governmental and self-regulatory bodies; (j) costs and expenses of forming any special purpose entity or subsidiary in connection with an investment and the costs of maintaining each entity of the Fund; (k) travel, travel-related (including airfare, meals, lodging, parking and rentals) and entertainment expenses; (l) industry-related fees such as conference, seminar, training, speaker, industry association and similar expenses and fees; (m) fees and expenses payable to members of the Advisory Committee in exchange for their services; (n) expenses associated with annual investor meetings; and (o) other customary expenses. The foregoing list is not necessarily exhaustive and is intended to be illustrative of various overhead, operating and administrative expenses.

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

As discussed in Item 5, each General Partnership generates performance fees in the form of a carried interest of Fund earnings which is a right to a portion of the Fund's profits and gains over the Fund investors' Return of Capital.

Prior to entering into an advisory contract with any client, TerraCap Management provides detailed disclosures relating to the risks associated with performance-based fees.

Item 7: Types of Clients

We provide investment advice solely to the Funds, which are pooled investment vehicles. Investors are required to commit to invest a minimum of \$50,000 in TerraCap Partners LP, \$1,000,000 in TerraCap Partners II/TerraCap Partners III/TerraCap Partners IV/TerraCap Partners V (Institutional) LP, and \$250,000 in TerraCap Partners II/TerraCap Partners III/TerraCap Partners IV/TerraCap Partners V (HNW) LP; however, we can waive this minimum in our sole discretion. The Funds accept only accredited investors and qualified clients.

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

Methods of Analysis and Investment Strategy

We seek investment opportunities in the form of equity and debt investments in real estate projects, primarily located in the South Atlantic, West Central South, and West Mountain regions of the United States. All appropriate investment opportunities are presented to the Investment Committee. That Committee will provide to TerraCap Management managers a recommended course of action regarding the investment opportunity. TerraCap Management managers have the final decision on whether or how to act on the recommendation of the Committee. Investment decisions by both the Investment Committee and TerraCap Management managers are based on their assessment of the risks associated with each investment, in light of the amount of capital committed, the potential for income and profits from such investments and the likelihood of a successful exit from the investment.

TerraCap Management's policy is to allocate available investments first to client Funds, if the investments are within the investment parameters of such Funds. If an investment is within the investment parameters of more than one Fund, the Managers will allocate the investment among the client Funds in its good faith judgment as to the best interests of the client Funds, with consideration to factors including the relative size of the investment and the available capital of the client Funds, the client Funds' current investment portfolios, and the age and life-cycle status of each Fund as compared to the anticipated holding period of the investment. The Managers may consider all other factors it deems relevant to such a determination. If an available investment is not within any client Fund's investment parameters or is otherwise not suitable for a client Fund, such investment may be offered to affiliates of the Firm.

Each Fund's offering documents provide the General Partner, some discretion to expand, revise or contract the Fund's business without the consent of the other investors. Thus, in some cases, the Funds' investment strategies may be altered without prior approval by, or notice to, the investors of the Funds.

Risk Factors

An investment in TerraCap's Funds involves a substantial degree of risk and is intended and appropriate only for investors whose sophistication and financial resources are sufficient to enable them to evaluate such an investment and to assume such risks, including the risk of complete loss of their investment. In evaluating whether to subscribe to a TerraCap Fund, prospective investors should carefully consider the following risk factors, among others. Investors are urged to consult with their own financial, legal, and tax advisors before making any decision regarding an investment in TerraCap Funds. The various risks discussed below are not the only risks associated with an investment in TerraCap Funds.

General Economic and Market Risks

General Economic and Market Conditions. TerraCap's activities may be affected by general economic and market conditions, such as changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Fund investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect real

estate values and rates of delinquency, default and foreclosure and thus the profitability of the Fund investments. Volatility in the real estate markets or the economy in general could impair the Fund's profitability or result in losses. The Fund could incur material losses even if the TerraCap reacts quickly to difficult market conditions, and there can be no assurance that the Fund will not suffer material losses and other adverse effects from broad and rapid changes in market or economic conditions in the future. Even a well-analyzed approach may not protect the Fund from significant losses under certain market and economic conditions.

Deterioration of the Credit Markets and Volatility. In 2008 and the early part of 2009, events in the sub-prime mortgage market and other areas of the fixed income markets caused significant dislocations, illiquidity and volatility in the structured credit, leveraged loan and high-yield bond markets, as well as in the wider global financial and real estate markets. These and other forces resulted in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions, including Fannie Mae and Freddie Mac. These factors, combined with volatile commodity prices and foreign exchange rates, contributed to recessionary economic conditions globally and a resultant loss of investor confidence in the financial system, which resulted in a historically unprecedented lack of liquidity and decline in asset values. The deterioration of the global credit markets made it more difficult for financial sponsors to obtain favorable financing for their equity investments. 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. These conditions may also 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. Deteriorating economic conditions could adversely affect the financial resources of the Fund and its ability to make principal and interest payments on, or refinance, outstanding debt when due. Similarly, economic conditions could also adversely affect the financial resources of tenants of the Fund's investments and their ability to make rent payments. In the event of such defaults, the Fund could lose both invested capital in and anticipated profits from affected investments.

Recent Governmental Actions. The U.S. government and various states and regulatory authorities continue to implement and consider measures to stabilize U.S. financial and real estate markets. On July 21, 2010, then President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*"), which represents the most significant overhaul of the financial services industry since the Great Depression. The Dodd-Frank Act, among other things, (a) significantly increases the regulation of the TerraCap and other fund managers (including significant new recordkeeping and reporting requirements), and (b) prohibits certain banking entities from acquiring or retaining any equity ownership interest in, or sponsoring, any hedge fund or private equity fund (subject to certain exceptions). As a result of the foregoing and certain other provisions in the Dodd-Frank Act, the TerraCap, the General Partner and the Fund and their respective businesses face additional compliance costs and may be adversely affected in the future.

Moreover, it is uncertain whether recent regulatory and legislative actions will be able to prevent market volatility, stabilize financial and real estate markets or stimulate the credit markets. The Fund may be materially adversely affected by recent legislative or regulatory actions. In the longer term, the Dodd-Frank Act and other significant new regulations could limit the Fund's activities and investment opportunities or change the functioning of capital and real estate markets, and there is the possibility of a more severe worldwide economic downturn. Consequently, the Fund may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing its risks.

Terrorist Attacks and War. Terrorist activities, anti-terrorist efforts and other armed conflicts

involving the United States or its interests abroad may adversely affect the United States, its financial and real estate markets and global economies and could prevent the Fund from meeting its investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which may adversely affect the United States and the Fund for the short or long term in ways that cannot presently be predicted.

Investment Risks

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

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

Lack of Investment Opportunities. There can be no assurance that the TerraCap will be able to identify suitable investment opportunities for the Fund or that it will be able to fully invest all Capital Commitments. If the TerraCap fails to identify investment opportunities or otherwise fails to fully invest Capital Commitments, the potential return to Investors could be materially adversely affected.

Competition. The business of identifying real estate investments is extremely competitive. There can be no assurance that the Fund will be able to identify or successfully pursue attractive investments in the current economic and regulatory environment. The Fund, the General Partner and the TerraCap compete with many firms that have substantially greater financial resources, more favorable financing arrangements and larger research staffs than are available to the Fund, the General Partner and the TerraCap.

The Fund also faces competition in the operation of office, flex, hospitality, multi-family, and other

property types. The principal means of competition are rental rates, amenities offered, level of services, location and the nature and condition of the property. One or more investments made by the Fund may receive direct competition from existing or proposed properties within their respective markets, as well as from all owners and developers in the area in which such properties are located. The opening of other competitive properties near a property owned by the Fund may have an adverse effect on, among other things, effective rental rates, occupancy and operation of such property, as well as on its market value.

Difficulty in Selling Properties. Real estate assets are generally illiquid in nature. There is a risk that the Fund will be unable to realize its investment objectives through the sale or disposition of one or more of its investments at an attractive price or within any given period of time or that the Fund will otherwise be unable to complete any planned exit strategy. In particular, these risks could arise from the absence of an established market for a property, changes in the financial condition or prospects of purchasers, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the relevant investment is located. Furthermore, in some cases, the Fund may have certain contractual obligations to tenants or joint venture partners in connection with a sale or disposition that may limit or prohibit the Fund's ability to complete an exit strategy in a timely fashion. Any of the foregoing factors could limit the ability of the Fund to vary its investments rapidly in response to changes in economic and other conditions. Any difficulty in selling or otherwise disposing of investments could have a material adverse effect on the Fund and the Investors.

Illiquidity of Investments. Most of the investments made by the Fund are and will be highly illiquid. The Fund's ability to dispose of any one or more investments may be constrained by a number of factors including, but not limited to, a general shortage of local capital and the absence of developed property markets and merger and acquisition markets for privately held companies. Accordingly, the Fund's ability to exit from a particular investment depends to a large extent upon the terms of agreements entered by or on behalf of the Fund and its own efforts. There can be no assurance that the Fund will be able to dispose of investments at the price and at the time it wishes to do so. In addition, it is uncertain when profits, if any, will be realized by the Fund. While the Fund invests a substantial portion of its capital in assets believed by the TerraCap to be value-add real estate properties, there can be no assurance that the TerraCap will correctly categorize such properties or that any investments made by the Fund will continue to be value-add real estate investment properties.

Failure to Complete Projects. There is a risk that the Fund may contract to acquire properties from sellers that fail to complete construction of such properties or that do not satisfactorily lease-up newly constructed properties prior to closing with the Fund. In such situations, closing on a property may be delayed until the requisite conditions have been satisfied or the Fund may choose not to proceed with closing on a property. There can be no assurance that steps taken by the TerraCap to minimize risks of contracting with a non-performing seller will be successful or protect the Fund against financial or other losses. Moreover, to the extent the Fund is not able to purchase properties because of a seller's failure to cause completion thereof or comply with certain other closing conditions, the Fund may lose the opportunity to make alternative investments in other properties, and there may be a corresponding delay in deploying the Fund's capital.

Environmental Risks. Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum products on, under or in such property. Such laws often impose

liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of, or the failure to properly remediate, such substances may adversely affect an owner's ability to borrow using such real property as collateral or to sell such property. In connection with the ownership (direct or indirect), management and development of real estate investments, the Fund or one of the entities that hold title to Fund assets could be considered an owner or operator of the property and may be liable for significant removal or remediation costs, as well as certain other potential costs relating to such hazardous or toxic substances or petroleum products.

Although each real estate investment generally is subject to environmental assessments before acquisition, no assurances can be given that the environmental assessments reveal all environmental liabilities, or that the Fund has established adequate reserves for such liabilities, or that no prior owners created any environmental condition not disclosed in the environmental assessment for such investment. Any environmental liabilities incurred with respect to the Fund's investments could materially adversely affect the Fund and the Investors.

Interest Rate Risks. The Fund has exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of assets held by the Fund. Changes in the general level of interest rates can affect the Fund's income by affecting the spread between the income on its assets and the expense of its interest-bearing liabilities, as well as, among other things, the value of its interest-earning assets, the capitalization rate at which its assets are valued in the market and its ability to realize gains from the sale of investments. Increases in interest rates will raise the Fund's interest costs, which will in turn reduce cash flow and the Fund's ability to make distributions to Investors. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the TerraCap.

Inflation Risks. The Fund has exposure to inflation risks, meaning that the value of the Fund's investments or income from the Fund's investments will be worth less in the future as inflation decreases the value of money over time. As inflation increases, the real value of the Interests and distributions related thereto may decline.

Uninsured Losses. The Fund generally expects to maintain insurance coverage with respect to its investments on a per-occurrence and annual aggregate basis to the extent such coverage is available at commercially reasonable rates, as determined by the TerraCap. The TerraCap also generally attempts to maintain insurance coverage against liability to third parties for injury and property damage in such amounts determined by the TerraCap to be commercially reasonable. However, the insurance industry is extremely unpredictable, and, as a result, the actual premiums and deductibles payable by the Fund may be substantially different than the TerraCap's projections of such premiums and deductibles. Insurance against certain risks, such as earthquakes, floods, windstorms, biological agents (e.g., mold) or damage by terrorism, may be commercially unavailable, available in amounts that are less than the full market value or replacement cost of an investment, subject to large deductibles or not economically insurable. In addition, there can be no assurance that the particular risks that are currently insurable will continue to be insurable on a commercially reasonable basis. There is no guarantee that an insurer will pay the full amount of any claim, that an insurer will not dispute or refuse to pay with respect to any claim of loss or that the insurer will be solvent or financially able to pay any claim, especially in the case of a catastrophic loss in one geographical area. Additionally, properties owned by the Fund or entities formed to hold such

properties may be at risk in the event of an uninsured liability to third parties. Should an uninsured loss or a loss in excess of insured limits occur, the Fund could lose all or a portion of its capital invested in such investment, as well as the anticipated future revenue from that investment. In that event, the Fund may nevertheless remain obligated for any notes payable or other financial obligations related to the applicable investment, in addition to obligations to the Fund's ground lessors, franchisors and managers. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the portfolio properties pledged as collateral for such loans, and other factors may also keep the Fund from using insurance proceeds to replace or renovate an investment after it has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the Fund may be inadequate to restore the Fund's economic position on any damaged or destroyed investment.

Regulatory Risks Related to Real Estate. The Fund's investments may be subject to various laws and regulations, including building codes, laws and regulations pertaining to fire safety and handicapped areas, and other laws and regulations that may from time to time be enacted by federal, state and local governments. The regulations applicable to the Fund's investments vary from location to location and from time to time. There is a risk that the Fund could be required to incur significant costs and expenses that may be necessary or appropriate to comply with any changes in any applicable laws or regulations. Non-compliance with existing or future laws or regulations applicable to an investment could result in substantial capital expenditures to bring the relevant investment into compliance, as well as the imposition of fines or an award of damages to private litigants, which generally are required to be borne by the Fund (and may materially adversely affect the Fund and the Investors).

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

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

Litigation. The Fund's investment activities may subject it to the risks of becoming involved in litigation with third parties. The expense of defending against claims against the Fund by third parties and the payment of any amounts pursuant to settlements or judgments would generally be borne by the Fund, reduce net assets and could require Investors to return distributed capital to the Fund. The TerraCap, the General Partner and their respective affiliates generally are indemnified by the Fund in connection with any such litigation, subject to certain conditions.

Financial Conditions of Tenants. Adverse changes in the operation of any property owned directly or indirectly by the Fund, or the financial condition of any tenant located on any such property, could have an adverse effect on the Fund's ability to collect rent payments and, accordingly, on its ability to make distributions to Investors. A tenant may experience, from time to time, a downturn in its business which may weaken its financial condition and result in its failure to make rental payments when due. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease or other adverse consequences and thereby cause a reduction in distributions to the Investors. No assurance can be given that tenants will not file for bankruptcy protection in the future or, if they do, that their leases will continue in effect. Risk of Investments in Entities. The Fund may invest indirectly through subsidiaries including, partnerships, special purpose vehicles, co-investment arrangements or other structures. The Fund may participate in joint ventures (subject to the terms and limitations set forth in the Partnership Agreement). Such investments may involve particular risks, for example, the possibility that such entities might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Fund, or that such entities or joint venture partners may be in a position to take action contrary to the Fund's objectives. In addition, in certain situations the Fund may be liable for the actions of any of its joint venture partners. While the TerraCap seeks to limit the Fund's exposure to such risks, there can be no assurance that it will be successful, in whole or in part.

Leverage Risks. The Fund is permitted to incur indebtedness in connection with its investment activities, subject to the limitations in the Partnership Agreement. The use of borrowing and leverage can, in certain circumstances, maximize the losses to which investments held by the Fund may be subject and will involve a high degree of risk. Because the use of leverage and borrowing will allow the Fund to control assets worth more than its investment in such assets, the amount that the Fund may lose in the event of adverse valuation changes will be high in relation to the amount invested in such assets, which may adversely affect the Fund. The Fund's, the TerraCap's or their affiliates' access to capital could be impaired by many factors, including market forces, economic conditions or regulatory changes.

Dependence on Third Party Managers. The Fund may hold title to its real estate assets indirectly through one or more subsidiaries (including special purpose vehicles). In addition, the Fund may participate in joint ventures. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund may suffer significant losses.

Joint venture investments may, under certain circumstances, involve risks that would not be present with respect to a wholly owned property. For example, a joint venture partner may experience financial difficulties, such partner may at any time have economic or business interests or goals that are inconsistent with the business interests or goals of the Fund, or such partner may take action contrary to the instructions, requests, or policies and objectives of the Fund.

In addition, the Fund may have an interest in a joint venture where the joint venture partner provides certain management, leasing or other services to the joint venture and who may have the right to participate in the cash flows of a property above certain threshold returns to the Fund, and who may also participate in the distribution of sales proceeds of a property above certain threshold returns to the Fund. Such fee arrangements with a partner may create an incentive for the property of the

relevant joint venture to be managed in a manner that is not consistent with the Fund's objectives.

Actions by (or litigation involving) a joint venture partner might have the result of subjecting the property owned by the joint venture to liabilities in excess of those contemplated by the joint venture agreement. In addition, there is a risk of impasse between the parties because either party may disagree with a proposed transaction involving the property and impede any proposed action.

Real Estate Investment Trusts. The Fund may invest in real estate investment trusts ("REITs") or other real estate securities. The risks of REITs include the risk that the value of a security will fluctuate because of changes in property values, vacancies of rental properties, overbuilding, changes in local laws, increased property taxes and operating expenses and other risks associated with real estate. Equity REITs may be affected by changes in property value, while mortgage REITs may be affected by credit quality and the interest rate environment. In addition, there is the risk that certain REITs may (i) fail to qualify for pass-through of income under U.S. federal income tax law and thereby become subject to entity-level income tax or (ii) to maintain their exemption from the registration requirements under U.S. federal securities laws.

Operational and Regulatory Risks

General Operational Risks. The Fund's transactions and investments may place substantial burdens on the TerraCap's operational systems and resources. Human error, system failure or other problems with any of these processes could result in material losses or costs, which generally are borne by the Fund subject to limitations in each Funds' Limited Partnership Agreement.

Valuation Risks. As set forth in each Funds' Limited Partnership Agreement, the General Partner will periodically value each property purchased by the Fund. Any such valuation, however, is a subjective analysis of the fair value of an asset and requires the use of techniques that are costly and time consuming and ultimately provide no more than a rough estimate of value. Similarly, certain of the Fund's liabilities may be valued on the basis of estimates. Accordingly, there can be no assurance that the value of the Fund's assets will be accurate on and as of any given date, nor can there be any assurance that the sale of any investment would be at a price equivalent to the last estimated value of such investment.

Internal Controls and Employee Misconduct. The TerraCap has adopted supervisory guidelines and other controls with the intention of detecting and preventing the misappropriation of the Fund's property and other misconduct and violations of law by employees of the TerraCap and other agents of the Fund. There can be no assurance, however, that such procedures and controls will be effective. Any violation of such procedures and controls, including acts of fraud and dishonesty by employees or agents of the TerraCap, or even unsubstantiated allegations of such misconduct, could result in material losses or costs, which will generally be borne by the Fund.

Regulatory and Legal Matters. In the course of its investment activities on behalf of the Fund, the TerraCap may employ unusual or novel investment strategies, financing structures, contractual arrangements and other techniques. The use of these techniques, as well as more ordinary techniques employed on behalf of the Fund, frequently may give rise to circumstances in which it is difficult or impossible to identify and apply governing laws and regulations (including those relating to real estate investments, trading and tax issues, among others) to the Fund's specific activities with any certainty. Although the TerraCap strives to comply with all applicable laws and regulations, there can be no certainty that this objective will be achieved. Even an inadvertent violation or an alleged

violation of applicable laws or regulations could impose significant costs on the Fund, including disgorgement of profits, penalties, settlement payments, loss of necessary licenses, restrictions on future activities, adverse publicity and otherwise. Such costs are generally borne by the Fund, even if they result from the negligence of the TerraCap (but not if resulting from the bad faith, willful misconduct, fraud or gross negligence of the TerraCap).

Absence of Regulatory Oversight. While the Fund may be considered similar to an investment company, the Fund is not and will not be registered as such under the Company Act, and, accordingly, the provisions of the Company Act (which, among other matters, require investment companies to have a majority of disinterested directors and regulate the relationship between the adviser and the investment company) generally are not applicable to the Fund. See “Certain Regulatory Matters.”

Risks Relating to Fund Terms and Structure

Limited Performance and Operating History. The Fund is expected to commence operations in February 2020 and has no operating history upon which investors can evaluate its historical performance. The past performance of other funds advised by the TerraCap is not indicative of the future performance or profitability of the Fund. The Fund’s investment program should be evaluated on the basis that there can be no assurance that the TerraCap’s assessment of the short-term or long-term prospects of investments will prove accurate or that the Fund will achieve its investment objectives. An investment in an Interest involves significant risks, including the risk of complete loss of an Investor’s entire investment.

Business and Regulatory Risks of Private Funds. The financial services industry generally, and the activities of private investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Fund’s exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on the TerraCap, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert the TerraCap’s time, attention and resources from portfolio management activities.

The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Fund to pursue its investment strategy regulatory, scrutiny of the alternative investment industry in general. Specifically, the Dodd-Frank Act and other related statutes and regulations may impose additional regulatory, reporting and recordkeeping requirements on advisers to private investment funds, including the TerraCap.

While the Fund may be considered similar to an investment company, the Fund does not expect to register as such under the Company Act, and, accordingly, the provisions of the Company Act (which, among other matters, require investment companies to have a majority of disinterested directors and regulate the relationship between the adviser and the investment company) generally will not be applicable to the Fund or the Investors.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUND. INVESTORS ARE ENCOURAGED TO READ THEIR RESPECTIVE FUND’S LIMITED PARTNERSHIP AGREEMENT AND MEMORANDUM IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.

All investments involve different degrees of risk. Investors should be aware of their risk tolerance

level and financial situations at all times. We cannot guarantee the successful performance of an investment and we are expressly prohibited from guaranteeing accounts against losses arising from market conditions. In other words, investors should be prepared to bear the risk of loss.

Item 9: Disciplinary Information

Registered investment advisors are required to disclose any material facts regarding any legal or disciplinary actions that would be material to the evaluation of the investment advisor and each investment advisor representative providing investment advice. We have no such information on disciplinary actions to disclose at this time.

Item 10: Other Financial Industry Activities and Affiliations

Financial Industry Affiliations

As a registered investment advisor, we are required to disclose when we, or any of our principals, have any other financial industry affiliations. Walter S. Hagenbuckle, an owner of TerraCap Management, is affiliated with a real estate brokerage licensed in Florida called Heights Realty & Investments, LLC. The TerraCap Funds primarily invest in real estate properties in the southern United States. When the managers select investments for the Fund, they also appoint various vendors and real estate professionals to provide services to the investment properties. These services include, but are not limited to, management of renovation projects, asset management, property manager, leasing, due diligence, accounting.

Other Affiliations

Walter S. Hagenbuckle and Robert Gray are also owners in the property management company called Harvard Pacific, LLC. Walter S. Hagenbuckle owns Heights Properties, Inc., also a property management company. Patricia Jans owns Handyman LLC.

In some cases, the Funds or TerraCap Management expect to use one of these companies, or its affiliates, to provide services to the adviser or Fund property investments. Certain services provided by Harvard Pacific (e.g. property management, engineering, etc.) will be provided and allocated to the Fund or investment at an hourly rate for these services. It is important to note that decisions as to whether or not an Affiliate participates in a bid and the ultimate selection of an affiliate are conducted by individuals with an equity interest in the Affiliate. Neither the Funds nor TerraCap Management will use any company affiliated with TerraCap Management owners unless that firm is demonstrably the lowest cost or best value competent service. Whenever one of these companies is used, it is the result of a competitive bidding and evaluation process. Nevertheless, the use of these companies creates conflicts of interest. To mitigate these conflicts, TerraCap Management employs the policies and procedures written below in the “Conflict Resolution” section.

From time to time, TerraCap Management or Harvard Pacific may lease office space in properties owned by the Funds. Such leases shall be at the then prevailing market rates that would generally be payable on an arm’s length bases by third parties for similar space and agreed upon terms.

Conflict Resolution

Conflicts may arise as a result of the affiliations/investments described above. To the extent possible, TerraCap Management will attempt to mitigate and resolve these conflicts.

It is our intention and goal to always put the interest of the client and underlying investors above the interest of the Firm, or any of its related persons. When evaluating potential vendors for investments in the Funds we look at various factors including: price, quality of service, our ability to oversee and control the quality of work provided, vendor reputation, etc. In doing so, we will at times identify affiliates as appropriate service providers to the Funds.

The TerraCap Management owners/principals and GPs have primary responsibility for resolving conflicts of interest involving the Funds. All owner/principal and GP decisions will be documented, including the reasoning, factors considered and supplemental data collected. If for any reason any manager or affiliated person is deemed to be “interested” with regards to a specific transaction, including the use of a real estate brokerage or property management company affiliated with an owner/principal, the owners/principals will submit the terms of the transaction to an Advisory Committee identified at that time, or to an independent, third-party advisor selected by the Committee.

No approval will be required if the transaction is subject to competitive bidding, or is of the type for which market range pricing and terms are available, and the transaction is within market ranges. The terms of the competitive bidding and market range pricing will be documented and preserved as records of TerraCap Management.

Approval of the use of an Affiliate will be reviewed by an employee without an equity interest in the Affiliate or by the Advisory board to mitigate such potential conflicts.

While the foregoing conflicts could materially and adversely affect the Funds, the Board, in its sole judgment and discretion, will attempt to mitigate such potential adversity by the exercise of business judgment in an attempt to fulfill its fiduciary obligations. TerraCap Management cannot assure that such an attempt will prevent adverse consequences resulting from the numerous potential conflicts of interest.

Side Letters

TerraCap will enter into side letter agreements with certain investors that provide additional or differential rights. Notwithstanding the foregoing, TerraCap will negotiate side letters with any investor at his or her, or his or her representative's, request and generally does not preclude any terms or conditions from such negotiations, unless the Limited Partnership Agreement expressly or mechanically prohibits certain terms from being negotiated.

Item 11: Code of Ethics

TerraCap Management has adopted a Code of Ethics (the “Code”) that governs a number of potential conflicts of interest we have when providing advisory services to our clients. This Code of Ethics is designed to ensure we meet our fiduciary obligation to our Clients (or Prospective Clients) and to establish and maintain a culture of Compliance within our Firm.

Our Code is also intended to detect and prevent violations of securities laws.

Our Code is distributed to each supervised person at the time of hire, and annually thereafter (if there are changes). We also supplement the Code with annual training and on-going monitoring of employee activity.

Supervised persons must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of clients. At all times, TerraCap Management will be mindful to:

- ***Place client interests ahead of TerraCap Management*** – As a fiduciary, TerraCap Management will serve in its clients' best interests. In other words, supervised persons may not benefit at the expense of clients;
- ***Engage in personal investing that is in full compliance with TerraCap Management's Code of Ethics*** – Access Persons must review and abide by TerraCap Management's Personal Securities Transaction and Insider Trading Policies;
- ***Ensure supervised persons do not take advantage of their positions*** – Supervised persons must not accept investment opportunities, gifts or other gratuities from individuals seeking to conduct business with TerraCap Management, or on behalf of a client, unless in compliance our Gift Policy;
- ***Maintain full compliance with applicable rules and regulations*** – Employees must abide by the standards set forth in Rule 204A-1 under the Advisers Act and other applicable rules and regulations.

Our Code also includes the following:

- Requirements related to the confidentiality of our client/investor information;
- Prohibitions on:
 - Insider trading (if we are in possession of material, non-public information);
 - The acceptance of gifts and entertainment that exceed our policy standards;
- Reporting of gifts and business entertainment;
- Pre-clearance of certain employee and firm transactions;
- Reporting (on an on-going and quarterly basis) all personal securities transactions (what we call "reportable securities" as mandated by regulation) and certain real estate transactions; and,
- On an annual basis, we require all employees to re-certify to our Code, identify members of their household and any account to which they have a beneficial ownership.

The Code of Ethics is available upon request.

Item 12: Brokerage Practices

TerraCap Management has discretion to identify the Fund's investments, as well as the price and quantity of each investment. Real estate investments are individually negotiated by TerraCap Management and are not purchased through securities brokers.

The Funds will have cash to invest. That cash is held at non-broker-dealer banks in cash or cash equivalents.

Item 13: Review of Accounts

As the manager and investment advisor for the Fund, we routinely monitor each Fund's performance, seek to identify investments to acquire or sell and generally manage each Fund's investment activities.

Each Fund's financial information is reviewed on an ongoing basis. Formal reviews are conducted on a monthly basis by the Firm's accounting department, the Fund's General Partner, or both.

On a quarterly basis, each Fund has a written quarterly report that discusses the overall status of the Fund as well as a capital account statement for each investor in the Fund. On an annual basis each Fund has a written GAAP basis audited financial statement, as well as relevant, written tax reporting information, prepared and delivered within 120 days of year end.

Item 14: Client Referrals and Other Compensation

We do not compensate third parties for client referrals; however, we have engaged three firms to act as sales agents for the placement of the private offering of those Funds actively raising capital.

The following broker-dealers have executed sales agreements with TerraCap Partners V (Institutional) LP and TerraCap Partners V (HNW) LP, which funds are currently raising capital:

- Harken Capital Securities, LLC
- Powder Point Financial, LLC
- Andes Capital Group, LLC

These arrangements are intended to be in compliance with the applicable rules and regulations of the Advisers Act and other applicable laws and regulations. For the services provided, the broker-dealers receive a selling commission based on a percentage of the amount of the total capital commitment by each investor they solicit. Details of the costs of any such placement agent arrangement are set forth in a written agreement with such placement agent and, disclosed to our investors as applicable.

Item 15: Custody

As the manager for a pooled investment vehicle, we have custody of the Funds' assets, and consequently we have implemented the following procedures for each Fund:

- We have engaged an independent CPA to provide annual audited financial statements for each Fund in accordance with generally accepted accounting principles.
- We distribute the audited statements to all members within 120 days of each Fund's fiscal year-end.
- We deliver a quarterly statement to each member of each Fund which lists the member's capital account balance in the Fund.
- A qualified custodian maintains the cash for each Fund in a separate account(s) in the name of the Fund. As the manager of the Funds, we opened such account(s) on behalf of each Fund as necessary to perform our duties for the Funds.

Item 16: Investment Discretion

We manage the Funds on a discretionary basis and we have broad discretion to make investments within the parameters described in the offering materials for the Funds. Our investment strategy is summarized above in Item 8, and more completely described in the offering materials for the Funds. By subscribing to an offering in the Funds, each investor appoints us as the investor attorney-in-fact, with authority to make, purchase, hold, trade, sell, exchange and liquidate investments, as well as to exercise all rights, powers, privileges and other incidents of ownership or possession with respect to securities held by the Fund, including, without limitation, voting rights, and to enter into, make and perform, all contracts and other undertakings, and to engage in all activities and transactions, as we, in our discretion, may deem necessary or advisable to the carrying out of the foregoing objectives.

Limitations on investment parameters, concentration limits and limits on the ability to amend the Funds' governing documents, are detailed in the offering documents.

Item 17: Voting Client Securities

The Funds generally do not trade in publicly traded securities; we do not typically have any opportunity to vote proxies for the Fund.

Item 18: Financial Information

We do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. We have no adverse financial information that would impair our ability to meet our contractual commitments to our clients.