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**CONFIDENTIAL**  
**PRIVATE PLACEMENT MEMORANDUM**

**WORCESTER FUND LLC**

**MEMBERSHIP UNITS and SECURED NOTES**

**March 2017**

**1220 Washington St., Suite 200  
Kansas City, MO 64105**

*IN MAKING AN INVESTMENT DECISION, YOU MUST RELY ON YOUR OWN EXAMINATION OF WORCESTER FUND LLC (THE "FUND"), AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE UNITS OR DETERMINED IF THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE UNITS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM, AND THE FUND'S OPERATING AGREEMENT. YOU WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.*

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## **Important Considerations**

This Confidential Private Placement Memorandum (the "PPM") is being provided to select qualified prospective Investors (the "Investor" or "Investors") on a confidential basis solely in connection with the consideration of the purchase of (i) units of limited liability company interests (the "Membership Units" or "Units") in, or (ii) notes (the "Notes") issued by, Worcester Fund LLC (the "Fund", the "Company", or "we"), which is managed by Worcester Fund Manager LLC (the "Manager" or "WFM"). *If you are not an "accredited investor" as defined by the Securities and Exchange Commission, please immediately return this PPM.*

In making an investment decision, prospective Investors must rely on their own examination of the Units and Notes and the terms of the Offering, including the merits and risks involved. The information contained in this PPM has been compiled from sources believed to be reliable by the management of the Fund.

The Units and Notes offered hereby are speculative and involve certain risks. See "Risk Factors." There is no public market for the Units and Notes, nor will one develop following this Offering. The fact that the price of the Units and Notes may fluctuate does not imply a public market of the Units and Notes. The Units and Notes are subject to transfer restrictions.

The information contained herein is deemed to be confidential by the Fund, has not been publicly released, and is disclosed for the sole purpose of evaluating the Units and Notes offered to prospective Investors. No person has been authorized to give any information or to make any representations about the Fund that are not contained in this PPM. Any such information or representation that is so given or received must not be relied upon by any Investor. The information contained in this PPM may not be provided to persons who are not directly concerned with an Investor's decision regarding the Units or Notes. The Investor, by accepting delivery of this PPM, agrees to return it and all related documents to the Manager if the recipient does not subscribe for Units or Notes. All of the information in this PPM is nonpublic, confidential and proprietary in nature, and the disclosure of any information in this PPM could cause harm to the Manager, the Fund, and other parties.

The Units and Notes are suitable only for sophisticated Investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand, are willing to assume, and have the financial resources necessary to withstand the risks involved in the investment program in which the Fund will engage. Accordingly, distribution of this PPM, and offers and sales of securities referred to herein, are limited to persons who meet certain suitability requirements. Each Investor will be required to make certain representations to the Fund, including representations as to investment intent, degree of sophistication, having access to information concerning the Fund, and ability to bear the economic risk of the investment.

This PPM does not constitute an offer or a solicitation in any state or other jurisdictions in which, or to any person to whom, such an offer or solicitation would be unlawful or is not authorized. This PPM may be relied upon only by the original person to whom it is delivered, and no other use or distribution of this PPM or the information contained herein is authorized. This PPM may not be copied and must be returned to the Fund if the Investor does not subscribe for any Units or Notes or if his, her or its subscription offer is rejected by the Fund.

The contents hereof are not to be construed as tax, legal, or investment advice. Each prospective Investor should consult his, her, or its own counsel, accountant, business, or other advisors as to the tax, legal, economic, and other consequences of the purchase of the Units and Notes offered hereby.

This PPM may contain projections which are predictions of future events that may or may not occur. Although all such projections, if any, are based on assumptions that the Fund believes are reasonable there can be no assurance that they will in fact prove to be correct. Consequently, they must not be relied upon to indicate, or guarantee, any actual results that may be realized.

No person is authorized by the Fund to give any information or make any representation other than those contained in this PPM in connection with the Offering made hereby, and if given or made, such other information or representations must not be relied upon as having been authorized by the Fund. Neither delivery of this PPM nor any sale made hereunder, under any circumstances, creates any implication that the information contained herein is correct as of any time subsequent to the date hereof.

The Fund has agreed to make available to each prospective Investor and to his, her, or its representative(s), or both, the opportunity, prior to the consummation of a sale of Units or Notes to such prospective Investor, to ask questions of and receive answers from the principals of the Manager concerning the terms and conditions of this Offering and to obtain any additional information, to the extent they possess such information or can acquire it without unreasonable effort or expense, necessary to verify the accuracy and completeness of the information set forth herein.

Inquiries should be directed to either Peter McHugh or Taryn Kendrick as follows:

Peter McHugh: 816-588-6402(offices), 913-488-4911 (mobile), or email at [petermchugh@worchester-investments.com](mailto:petermchugh@worchester-investments.com).

Taryn Kendrick: 816.291.4146 (office), 816.522.1613 (mobile), or email at [taryn.kendrick@worchester-investments.com](mailto:taryn.kendrick@worchester-investments.com).

The obligations of the Manager and the Members of the Fund are set forth in and will be governed by an operating agreement of the Fund (the "Operating Agreement"), and a subscription agreement ("Unit Subscription Agreement") relating to the Units (the Operating Agreement and Unit Subscription Agreement are referred to collectively herein as the "Member Subscription Booklet"). The obligations of the Manager and the Note Holders of the Fund are set forth in and will be governed by an Intercreditor Agreement (the "Intercreditor Agreement") and subscription agreement ("Note Subscription Agreement") relating to the Notes (the Intercreditor Agreement and Note Subscription Agreement are referred to collectively herein as the "Note Holder Subscription Booklet"). The Member Subscription Booklet and the Note Holder Subscription Booklet may be referred to herein individually as a "Subscription Booklet" and collectively as the "Subscription Booklets." The Unit Subscription Agreement and Note Subscription Agreement may also be referred to herein individually as a "Subscription Agreement" and collectively as the "Subscription Agreements." All of the statements and information contained herein are qualified in their entirety by reference to these agreements.

This PPM may summarize some of the terms of the Subscription Booklets and other documents referred to herein and therein. However, the discussions set forth in this PPM do not purport to be complete. Copies of the Subscription Booklets have been and will be provided to prospective Investors and each prospective Investor and its advisors should read these materials, including any and all revisions thereto, prior to making a decision to invest the Fund.

The Fund will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Manager does not anticipate registering as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Investment Advisers Act").

The delivery of this PPM does not imply that the information contained herein is correct as of any time subsequent to the date of its issue. Unless specified otherwise, all statements made herein are made as of March 2017.

Certain statements contained in this PPM, including, without limitation, statements containing the words "believes," "anticipates," "plans," "intends," "expects," and words of similar import constitute "forward-looking statements." Forward-looking statements include those related to investment returns, investment parameters and objectives, and spreading risk on investments. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Fund to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Given such uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The Fund and the Manager disclaim any obligation to update such factors or to announce any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

In considering the performance information contained herein, prospective Investors should bear in mind that there can be no assurance that the Fund will achieve the projected results. Actual future conditions may require actions that differ from those contemplated at this time and prospective Investors are cautioned not to place undue reliance on any projections contained in this PPM.

OFFERS ARE ONLY BEING MADE PURSUANT TO THIS PPM AND THE RELATED SUBSCRIPTION BOOKLETS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION, NOR ANY OTHER FEDERAL OR STATE AUTHORITY HAS EXAMINED OR ENDORSED THE MERITS OF THE OFFERING OR THE ADEQUACY OF THIS PPM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UNITS AND NOTES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF BY AN INVESTOR WITHOUT THE PRIOR WRITTEN CONSENT OF THE MANAGER AND COMPLIANCE WITH FEDERAL AND STATE SECURITIES LAWS AND THE OPERATING AGREEMENT.

All capitalized terms not otherwise defined will have the meaning set forth in the "Definition of Terms" section.

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## **INTRODUCTION**

Welcome to Worcester Fund LLC! The Fund will invest in and lend on real estate assets within the United States and primarily within Missouri and Kansas. The Fund's investment strategy has been engineered to capitalize on the expertise and experience of its Manager's principals. The Offering is being conducted under Rule 506 of Regulation D promulgated under the Securities Act.

We believe our track record demonstrates a commitment to excellence, integrity, and continual improvement. That track record is exemplified in the relationship we have with our investors, a cornerstone to Worcester's success. To best serve our investors and uphold our company's core values we specifically focus on very select asset classes and target markets.

The economic data that we obtain through the Fund's specialized business activities allows us to maintain a constant pulse on our market in order to maximize our chances of consistently securing the best deals that our market offers. We buy for intrinsic value and with a long-term perspective, which helps us avoid the lure of low hanging fruit and find the opportunities not perceptible to the fly-by-night or non-specialized investors.

Please read this PPM carefully, including the sections titled "Investment Objectives and Overview of Fund Strategy" and "Risk Factors." Those sections of this PPM, in addition to others, explain the Fund's investment strategy, targeted return for investors, and some of the attendant risks of an investment in the Fund.

We encourage you to consider becoming an investor in what we believe will become one of the premier real estate-related investment funds in the Midwest over the coming years. We appreciate your interest and look forward to welcoming you as an Investor in the Fund.

Sincerely,

The Worcester Team

## DEFINITION OF TERMS

The following terms have the meanings ascribed to them below when used elsewhere in this PPM with the initial letter capitalized. Other capitalized terms found throughout this PPM and not defined below or in the body of the PPM have the meaning as ascribed to them in the applicable Subscription Booklet:

"Affiliates" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person; provided that the "Affiliates" of the Manager exclude the Company and any Person owned or controlled by the Company. "Control" for purposes of this definition means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person, through voting securities, contract rights, or otherwise.

"Borrowers" mean the Persons that are the recipients and payors of the Mortgage Loans.

"Broker/Dealer" means a licensed broker/dealer employed by the Manager for the purpose of locating Investors for this Offering.

"Cash-Out Notice" means written notice of a Note Holder's desire to be cashed out of the Note Holder's Note, which is required to be given to the Manager by the Note Holder no earlier than 60 days prior to the requested date of repayment, provided that such date of repayment cannot be earlier than the Note's Maturity Date.

"Capital" means the price paid for each Membership Unit.

"Capital Account" means a Member's individual capital account in the Fund as calculated according to the terms of the Operating Agreement. A Member's Capital Account is generally the amount of Capital contributed by the Member to the Fund and the Member's share of the income and gain of the Fund, less the amount of any Distributions made to the Member by the Fund and the Member's share of the losses and deductions of the Fund.

"Cause" shall be deemed to have occurred if the Manager is found by a court of competent jurisdiction to have: (i) committed embezzlement, fraud, or any other act involving material improper conduct against the Fund or its Assets; or (ii) engaged in conduct that amounts to recklessness or willful malfeasance with respect to the Fund or its Assets.

"Class A Members" means those Members that hold Class A Units.

"Class A Units" means, as of the date of calculation, any Units owned by Members with a Capital Account of \$1,000,000 or greater.

"Class B Members" means those Members that hold Class B Units.

"Class B Units" means, as of the date of calculation, any Units owned by Members with a Capital Account between \$250,000 and \$1,000,000.

"Class C Members" means those Members that hold Class C Units.

"Class C Units" means, as of the date of calculation, any Units owned by Members with a Capital Account less than \$250,000.

"Code" means the Internal Revenue Code of 1986, as amended.

“Collateral” means the property and interests securing a Mortgage Loan, including but not limited to real property and other real estate related assets.

“Credit Facility” or “Facility” means any loan or line of credit to the Fund, other than the Notes, including, but not limited to, warehouse lines, collateral pledge lines, or other short term cash management lines, individual loans, or lines of credit from any lender, institutional or private, or any other borrowing by the Fund, any of which may be secured in first position by one or more of the Fund Assets, including all of the Fund Assets.

“Distributable Cash” means at the time of determination by the Manager, cash generated from the Fund’s Assets and other operations of the Fund after payment of or provision for the following expenses (a) interest and principal payments due under any Credit Facility, the Notes, or any other amounts borrowed by the Fund, (b) Fund Expenses, and (c) such amounts as the Manager deems reasonable in order to provide for any anticipated, contingent or unforeseen expenditures or liabilities of the Fund. Distributable Cash shall be determined without regard to (i) capital contributions made by Members or (ii) principal advanced on any Credit Facility, the Notes, or any other Company indebtedness. Distributable Cash shall be determined by the Manager in its sole discretion.

“Distributions” means amounts which from time to time are distributed to holders of Units, at the Manager’s sole discretion, but subject to the limitations set forth in the Operating Agreement.

“Early Repayment Fee” means 5%, or other figure as determined by the Manager, of the original Note principal plus the positive difference, if any, between the Note Rate of the Note’s original Term and the Note Rate of the Note’s actual Term to repayment, as determined by the Manager upon its acceptance of the Note Holder’s repayment request.

“Excess Distributable Cash” or “EDC” means any remaining cash in the Fund available for distribution to the Members after: (i) the Fund pays all current liabilities or expenses, including, but not limited to, interest on or repayments of any Credit Facility, the Notes, or any amounts borrowed by the Fund from the Subscription Account, any early repayment of Notes as determined by the Manager, any Redemptions as determined by the Manager, and all Fund Expenses; (ii) the Fund reserves sufficient capital for future liabilities or expenses or other activities of the Fund, as determined in the sole judgment of the Manager; and (iii) the Fund distributes the Preferred Return to the Members. The EDC will be determined quarterly the Manager in its sole discretion. At each quarter end, payment of any EDC will either be made or not made depending on the Fund’s results at the discretion of the Manager.

“Fund Assets” or “Assets” means any and all assets of the Fund including Mortgage Loans, real property, contracts or notes receivable, cash, or any other asset or receivable of the Fund.

“Fund Expenses” means fund organizational costs, costs to acquire or dispose of Fund Assets, accounting and related costs for tax return preparation, financial statement preparation, or audits, legal fees and costs, filing, licensing, or other governmental fees, other third-party audits, the Management Fee payable to the Manager, the Loan Servicing Fee payable to the Manager, any guarantee fees payable to the Manager or Paul or Joel Worcester, the other fees and amounts payable to the Manager or Affiliates as further described in this PPM, fund administration costs, capital acquisition fees and costs (including payment to duly licensed third parties who are contracted by the Manager to

raise capital for the Fund), loan origination fees or other fees or costs associated with any Credit Facilities, costs associated with ownership of real property (e.g., property improvement and rehabilitation costs not otherwise capitalized, sales commissions, property taxes, property management, hazard insurance, and utilities), and any other expenses associated with operation of the Fund or management of its Assets.

“Intercreditor Agreement” means the Intercreditor Security Agreement signed by each Note Holder, the Manager on behalf of the Fund, and the Manager as Note Holder Representative.

“Investor” means either, or both, a prospective or actual purchaser of Membership Units or Notes pursuant to this Offering.

“Investor Capital” or “Investment Capital” means the combined capital provided by both Members and Note Holders from the Offering.

“Investor Suitability Statement” or “Suitability Statement” means the suitability statements made by an Investor in the Investor’s Subscription Agreement.

“IRS” means the United States Internal Revenue Service.

“Loan Servicing Fee” means a monthly fee, paid to the Manager, not to exceed 0.5% (annualized) of the unpaid principal balance of any loan obligations being serviced by the Fund or by a third party on the Fund’s behalf, as calculated on the last day of each month by the Manager in its sole discretion.

“Lockup Period” means the 48-month period immediately following the Manager’s acceptance of an investment in Units, during which a Member may not request Redemption of those Units.

“Majority” means a percentage of the total Ownership Interest of the Members entitled to vote on the matter in excess of 50%.

“Management Fee” means a monthly fee, paid to the Manager, equal to 1.5% (annualized) of the total collective Stated Value of the Fund’s investments in Fund Assets, as calculated on the last day of each month by the Manager in its sole discretion, and payable on the last business day of each calendar month (payable as 0.125% monthly). The Management Fee will be paid by the Fund prior to making any Distributions to Members.

“Manager” initially means Worcester Fund Manager LLC, a Delaware limited liability company, and thereafter, any other Person elected by the Members to serve as the Manager of the Fund pursuant to the terms of the Operating Agreement.

“Manager EDC Clawback” or “Clawback” means that portion of any EDC that would otherwise be paid to the Manager in a given quarter that shall instead be forfeited and distributed to the Members, as required by the terms of the Operating Agreement, because the Fund did not pay the Members the full amount of their Preferred Return in any of the prior four consecutive quarters. The amount of the Clawback shall not exceed the lesser of (i) the total amount of the Preferred Return not paid to the Members in full over the prior four consecutive quarters and (ii) the entire amount of EDC that would otherwise be paid to the Manager in the given quarter.

“Member” means any Person holding Units that has been approved by the Manager and is a party to the Operating Agreement.

“Membership Units” or “Units” means a division of ownership of limited liability company interests in the Fund. There are three classes of Units available for Members: Class A Units, Class B Units and Class C Units. The Class of Units a Member owns is based on the size of investment and is tiered by dollar amount as follows: Members with a Capital Account less than \$250,000 will own Class C Units, Members with a Capital Account between \$250,000 and \$1,000,000 will own Class B Units, and Members with a Capital Account of \$1,000,000 or greater will own Class A Units. The Units are identical with the exception of the manner in which Excess Distributable Cash is distributed as between the Manager and the Members.

“Money Market Account” means one or more accounts in which the Fund’s available cash will be placed. Each Money Market Account will consist of investments that are liquid, and that, in the Manager’s judgment, are sufficiently safe while producing a yield, if any, on the Fund’s cash.

“Mortgage Loans” means the loans originated or acquired by the Fund (either in whole or in Participation Interests) and which are secured by real estate.

“Note” or “Notes” mean a Promissory Note or Notes issued from the Fund to a Note Holder, as executed by the Manager.

“Note Holder” means any purchaser of Note(s) pursuant to this Offering.

“Note Holder Subscription Documents” means the Note Holder Subscription Agreement, a signature page to the Intercreditor Agreement, an Investor Suitability Statement, a Note Schedule, and such other documentation as is deemed appropriate by the Manager to complete the purchase of a Note by Note Holder.

“Note Rate” means the total interest rate payable under a Note.

“Note Schedule” means the matrix summary of Note rates and terms offered to Investors as modified periodically by the Manager.

“Offering” means the offering to Investors of Units and Notes pursuant to the terms of this PPM, the Operating Agreement, the Intercreditor Agreement, the Subscription Booklets, and the other related documents.

“Operating Agreement” means the Operating Agreement of the Fund, to be executed by the Manager as well as each Member of the Fund.

“Originator” means the Person that is engaged by the Fund to originate Mortgage Loans for and on behalf of the Fund. The Originator shall primarily be Worcester Financial LLC, a Missouri limited liability company and an Affiliate of Worcester Fund Manager LLC, although the Manager reserves the right in its sole discretion from time to time to engage any other Person to act as the Originator or to itself originate Mortgage Loans on behalf of the Fund.

“Ownership Interest” means, for each Member, that percentage which is obtained by dividing the Membership Units held by a Member by the total of all Membership Units held by all the Members. The calculation may also be made within any given class of Units. For

the purposes of voting matters, the Manager will determine each Member's Ownership Interest as of the Record Date.

"Pari Passu" means proportionally, at an equal pace with, and without preference over other Members or Note Holders, as applicable.

"Participation Interest" means an investment by the Fund in which it owns some undivided percentage interest in a Fund Asset.

"Person" means an individual, a partnership (general, limited, or limited liability), a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental, quasi-governmental, judicial, or regulatory entity, or any department, agency, or political subdivision thereof.

"Preferred Return" means a preferred return equal to 8% per annum on a Member's contributed but unreturned Capital, which will be due and payable by the Fund to each Member on a quarterly basis. The Preferred Return is not guaranteed, meaning that the Preferred Return will not be paid in any particular quarter if the Fund does not have sufficient capital available to pay it, as determined by the Manager in its sole discretion. The Preferred Return is also noncumulative, meaning that any Preferred Return not paid to the Members in full in any given quarter shall not be compounded or otherwise carried forward except, as provided in the Operating Agreement, any EDC that would otherwise be distributable to the Manager in any of the following four consecutive quarters after the given quarter in which the Preferred Return is not paid in full shall be forfeited by the Manager and distributed to the Members pursuant to the Clawback.

"Redemption" means the Company's paying of cash to a Member at the then current Unit Price in exchange for that Member's Units. There are significant restrictions on a Redemption as more fully described in this PPM and the Operating Agreement.

"Redemption Fee" means a fee in an amount equal to 5%, or other such amount as determined by the Manager in its sole discretion, of the then current Unit Price that will be charged for any Units redeemed within the Lockup Period. The Manager may or may not approve a request for a premature Redemption in its sole discretion.

"SEC" means the United States Securities and Exchange Commission.

"Security" means the collateral securing the Notes.

"SPV" or "Special Purpose Vehicle" means a subsidiary company specifically created for a single purpose that benefits the Fund, such as owning a specific Fund Asset. The use of SPVs provides an asset/liability structure and legal status that makes the SPV's obligations secure and is intended to insulate those obligations from the rest of the Fund.

"Stated Value" means the figure used by the Fund as the value of the Fund's investment in each Asset it owns to assist in determining the Management Fee and the Unit Price of the Membership Units of the Fund. The Stated Value of each individual Fund Asset will be determined on the last day of each calendar quarter (or more frequently, as applicable) by the Manager in its sole discretion. The Manager, however, will establish and follow a methodology for determining the Stated Value and may modify, alter, or improve the methodology from time to time in its sole discretion.

"Subscription Booklets" means that package of documents provided to Investors for the purposes of evaluating the Offering and purchasing Units or Notes in the Fund. The Member Subscription Booklet will include this PPM, the Operating Agreement, the Unit Subscription Agreement, and the Investor Suitability Statement. The Note Holder Subscription Booklet will include this PPM, the Intercreditor Agreement, a sample Note, the Note Subscription Agreement, and the Investor Suitability Statement.

## STRUCTURE OF FUND

The Manager has endeavored to create this Fund in a way that balances the Manager's need for flexibility, autonomy, and control with respect to Fund policies and investment decisions with the Investor's natural desire for safety, oversight, and transparency. We have given extensive consideration to the Fund's fee structure, administrative procedures, and third party service providers, including accounting and auditing services, and have attempted to create what we believe is the proper alignment of interests between the Manager and the Investors.

The Fund is organized as a Delaware limited liability company. Investors may participate in the Offering by purchasing Units or Notes (or both). The Units are offered in three different classes as described in this PPM.

### **Investor Suitability Standards**

The Offering is being conducted pursuant to an exemption from registration under Regulation D of the Securities Act of 1933 (the "Act" or "Securities Act"). The Fund is open to both United States and foreign Investors.

This is a private Offering which is being made only by delivery of a copy of this PPM and the attached Subscription Booklets. Each Investor in the Fund must be an "accredited investor" as such term is defined in Regulation D promulgated by the SEC under the Act. In addition, each Investor will be required to represent and warrant to the Fund and Manager that it meets the "accredited investor" and other requirements as detailed in the Subscription Booklets. Each Investor must also be able to verify its status as an accredited investor in accordance with SEC guidelines to the Manager's satisfaction.

Some of the ways Investors can currently qualify as an "accredited investor" are:

- For natural person Investors, having a net worth of at least \$1,000,000, excluding the positive value of a primary residence; or
- For natural person Investors, having an adjusted gross income of at least \$200,000 for the last 2 years (or \$300,000 with a spouse) and reasonably expecting to attain those amounts this year; or
- For certain entity Investors, having assets of at least \$5,000,000, or
- For entity Investors, having all of the owners of the entity otherwise be "accredited investors."

Furthermore, the Offering and sales of the Units and Notes offered hereby will be made only to individuals or entities that meet or exceed certain additional suitability standards which have been adopted by the Fund for the purpose of determining who will be permitted to purchase Units or Notes. Subscriptions from suitable prospective Investors will be accepted or rejected by the Fund in the sole discretion of the Manager after receipt of all subscription documents properly completed and executed. The Manager reserves the right to reject any subscription for any reason in its sole discretion. If an Investor's subscription for Units or Notes is accepted by the Manager, the Investor will become a Member or Note Holder without any further action by any person. If the Manager rejects the subscription of any Investor, the Investor's completed Subscription Booklet and subscription funds will be returned promptly to the Investor.

## **Investment Options**

Investors have two investment options:

1. Membership Units representing equity ownership of the Fund; and
2. Notes secured by the assets of the Fund.

An Investor that purchases Membership Units will become a Member of the Fund. An Investor that purchases a Note will be lending money to the Fund and will become a Note Holder. See the FAQ section as well as the remainder of the PPM for more details on the two investment options and the differences between them. By executing a Subscription Agreement, an Investor unconditionally and irrevocably agrees to purchase Units or Notes (or both) as applicable in the amounts shown thereon, and makes a commitment to contribute capital (as debt or equity in the Fund) in accordance with the terms set forth in the applicable Subscription Agreement, and in the Operating Agreement or Intercreditor Agreement, as applicable.

The Fund seeks to raise up to \$50,000,000 in Investor Capital (Member and Note Holder capital combined) over the lifetime of the Fund, which amount may be increased in the sole discretion of the Manager. The Manager may or may not raise the full amount during the lifetime of the Fund. The minimum investment (in Notes or Membership Units) is \$50,000 per Investor, which amount may be adjusted in the sole discretion of the Manager.

## **INVESTMENT OBJECTIVES AND OVERVIEW OF FUND STRATEGY**

### **Primary Investment Objectives**

The Fund's objectives are to deploy the proceeds of this Offering in qualified Fund Assets (described below) that will be intended to:

- Provide the Note Holders with annualized returns that will vary from time to time, depending on investment size and duration of Note maturity (see the current Note Schedule);
- Provide the Members with a Preferred Return of 8% *per annum* on their contributed but unreturned capital and additional distributions which will endeavor to produce overall annualized returns to Members in the range of 9% to 12%; and
- Ultimately provide Members and Note Holders with a full return of their capital contributions.

No assurance can be given that any of these objectives will be attained or that an Investor's Investment Capital will not decrease. Predictions of annualized returns is highly speculative.

### **Strategy to Achieve Fund Investment Objectives**

The strategy of the Fund will be to create a portfolio of small balance real estate based assets ("Assets" or "Fund Assets") to produce attractive risk adjusted returns.

The Fund will endeavor to spread its risk in a myriad of ways; geographically (although the Fund will primarily focus on Fund Assets located in Missouri and Kansas), by asset type, by property type, by Borrower, by duration of debt term, by exit strategy of each asset, and by investment type and size.

The Fund will be composed of the following investment elements:

- Short-term debt financing of residential and commercial loans issued to consumers, builders, developers, and investors.
- Investments into equity positions with outside consumers, builders, developers, or investors.
- Direct acquisition of real estate transactions.

The Fund will provide financing. This will include but is not limited to, consumers, builders, developers, and investors for various real properties. This will include, but is not limited to: construction, non-owner occupied residential rehab, bridge, lot, commercial construction, and horizontal lot development financing (collectively the "Mortgage Loans"). The Fund may also acquire performing and nonperforming Mortgage Loans secured in first lien position by real estate.

### **Equity/Debt Financed Acquisition of Fund Assets**

Additionally, the Fund will consider providing equity to real estate developers for the acquisition, rehabilitation, or construction of single family residential and multifamily properties. Each Asset will be purchased via a Special Purpose Vehicle (or "SPV") on terms determined in the Manager's sole discretion. The Manager anticipates that the acquisition of each Asset will be financed with a mixture of approximately 75% debt and 25% equity, with the percentage of debt not expected to exceed 80%. The Fund will make an equity investment in each SPV and the Manager or a designated Affiliate will act as the general partner or

manager of the SPV. The Manager will determine the amount and relative size of the Fund's investment in each SPV in its sole discretion based on a variety factors.

The Manager will determine the structure of each SPV, which it expects to structure in most cases as limited liability companies ("LLCs") with multiple classes of membership interests. The Fund and third party SPV investors typically would own non-voting investment units. Generally, the Manager intends to seek a meaningful amount of investment from Investors located in or near the geographic market in which the Asset purchased by that SPV is located.

The Manager or a designated Affiliate will seek to have exclusive control and voting rights with respect to the SPV.

The Manager will seek to have each SPV pay a portion of the Fund Expenses attributable to the SPV, including, without limitation, accounting costs, which will generally be a pro rata amount based on the amount the Fund invested in the SPV relative to the other SPV investments and anticipated capital contributions for future investments. Although the Management Fee will be charged by the Manager at the Fund level, the Manager will not charge each SPV any additional asset management fee.

Lastly, the Fund may also occasionally acquire single family residential and multifamily lots directly itself for development. The Fund may develop, fix and flip, rehab, or hold these assets in the sole discretion of the Manager.

## MANAGEMENT

The Manager of the Fund will be Worcester Fund Manager LLC, a Delaware limited liability company (the "Manager" or "WFM"). WFM will also represent the Note Holders as the Note Holder Representative.

### **Worcester Investments, LLC**

The Manager is wholly owned by Worcester Investments, LLC ("Worcester Investments"), a family owned and operated real estate investment company located in Kansas City, Missouri. Worcester Investments, founded in 2006 by the Worcester brothers Paul and Joel and their father as a family business, began acquiring rental property in Oregon, where they lived and grew up. Worcester Investments expanded into the greater Kansas City area through a real estate connection in 2007 and began focusing exclusively on Kansas City area multifamily real estate. The company has continued to see steady growth since their expansion in the Kansas City apartment market. Worcester Investments has collaborated with 80+ partners who have invested a total of \$40M+ of private equity with the company.

In partnership with its investors, Worcester Investments owns and operates \$150M+ of real estate, including 3,000+ apartment units in the greater Kansas City area. Worcester Investments employs 120+ team members and was recently named Kansas City's sixth fastest growing company by the Kansas City Business Journal. Worcester Investments was named the 1,397th fastest growing private company in the U.S. in the 2015 INC. 5,000 publication.

The primary business model for Worcester Investments has been to target apartments in quality Kansas City submarkets that are performing below reasonable potential, and then stabilizing and improving the assets upon acquisition through its in-house property management and construction teams. This has proven to be a successful business model for Worcester Investments and its partners, primarily due to their thorough understanding of the Kansas City market and their specialized focus in multifamily real estate.

As the company has grown, Worcester Investments has diversified into the development of new multifamily communities and private lending. While diversifying to reduce risk, Worcester has remained true to its commitment to specialization by focusing on the multifamily asset class and the greater Kansas City geographical location.

### **Worcester Fund Manager LLC**

The Manager was formed in 2016 exclusively to manage the Fund. The principals of the Manager are Paul and Joel Worcester. The Manager will be managed by Paul and Joel Worcester and the individuals listed below, each of whom provides the following services for Worcester Investments and will provide similar services for the Manager with respect to management of the Fund.

### **Paul Worcester – Co-Founder of Worcester Investments and Co-CEO of Worcester Fund Manager**

Paul helped found Worcester Investments in late 2006 and is one of two managing partners. Paul is responsible for identifying and negotiating value-add apartment acquisition opportunities in the Kansas City area. Paul has a passion for developing team members and helping shape the company vision. Paul lives in Kansas City with his wife and two children.

### **Joel Worcester – Co-Founder of Worcester Investments and Co-CEO of Worcester Fund Manager**

Joel helped found Worcester Investments and is the other managing partner. Joel manages finances and financial matters and provides guidance where needed at the highest levels. He helps, and thoroughly enjoys, developing lasting relationships with investors and business partners. Joel lives in Kansas City with his wife and three children.

### **Taryn Kendrick – Director of Investor Relations**

Taryn has been with Worcester Investments since early 2013, providing active communication and assistance to investors. She is a leader in the company's private lending division. Her responsibilities include vetting Borrowers, conducting due diligence for loan opportunities, raising capital for new lending projects, and facilitating the servicing of financial investments. Taryn lives in the Kansas City area with her husband.

### **Julie Still – President of Worcester Communities**

Julie brought 30 years of real estate industry experience to Worcester Investments when she started with the company in 2014. Julie began her multifamily property management career as a leasing agent and has progressed through various management roles, including her most recent experience prior to Worcester: 14 years as an asset manager, president, and finally chairperson of Whitney Management Corp. Julie also has vast construction and tax credit experience, leading numerous major multi-family development projects. At Worcester, Julie leads the property management team and oversees major construction projects.

### **Joe Neuerburg – Executive Vice President of Capital Allocation**

After a successful 20-year banking career, from which Joe got to know the Worcester brothers while originating five conventional multifamily loans for Worcester, Joe joined the team in September 2016. Joe is responsible for raising and allocating equity for the fund and syndication investments, and for developing lasting relationships with investors. Joe also provides assistance for financing and private lending. Joe lives in the Kansas City area with his wife and two children, with a third in college.

### **Originator**

The Manager intends to engage Worcester Financial, LLC, a Missouri limited liability company and a subsidiary of Worcester Investments, to act as the Originator and originate Mortgage Loans for and on behalf of the Fund. The Manager may also, from time to time in the sole discretion of the Manager, engage another third party to act as the Originator or originate Mortgage Loans itself. As further described in this PPM, the Originator will be entitled to collect 50% of the loan origination fees paid by Borrowers with respect to the Mortgage Loans originated by the Originator, with the other 50% going to the Fund. In the event the Manager originates Mortgage Loans itself, the Fund may pay the Manager a commercially reasonable loan origination fee for such loan origination services, as determined by the Manager in its sole discretion.

### **Third Party Fund Administration**

The Manager has engaged Fairway America, LLC, an experienced and longtime fund manager as well as fund advisory, consulting, administration, and servicing firm, to provide the Fund with professional administration in the areas of financial statement preparation, investor

subscriptions and redemptions, and other back office administration functions. Fairway America has the relevant infrastructure, resources, and experience that are expected to significantly assist the Fund and Manager in the professional administration of the Fund. The cost of these services will be a Fund Expense.

## SUMMARY OF THE OFFERING

The following summary is qualified, in its entirety, by information appearing elsewhere in this PPM, the Operating Agreement, the Subscription Agreement, the Notes and the Intercreditor Agreement (collectively, the "Documents"). You should read the Documents in their entirety and, in particular, focus on the risks described in the section of this PPM titled "Risk Factors." In the event of a conflict between this summary and any of the Documents, the provisions of the Documents will control.

**Company:** Worcester Fund LLC, a Delaware limited liability company (the "Fund" or the "Company").

**Manager:** Worcester Fund Manager LLC, a Delaware limited liability company (the "Manager" or "WFM"). The principals of the Manager are Paul Worcester and Joel Worcester.

The Members, upon a vote of 80% of the total Ownership Interest, may remove the Manager with Cause and, upon a vote of the Members holding a Majority, may elect a successor manager.

The Manager may resign at any time with one year's advance notice to the Members. Following the resignation of the Manager, the Members may elect a successor manager upon a vote of the Members holding a Majority.

Upon the death or permanent disability of both Paul and Joel Worcester (the "Key Persons Event"), the Fund shall cease making any new investments for one year from the date of the Key Persons Event. The Members shall have the right to appoint a replacement key person during the one year period. If no replacement key person is appointed by a vote of the Members holding a Majority within the one year following the Key Persons Event, the Fund shall permanently cease to make new investments and proceed with an orderly liquidation of its Assets.

**Ownership of the Fund:** The Fund shall be owned by Investors purchasing equity interests or membership shares ("Membership Units", or "Units") in the Fund, and who shall be called "Members." Members shall own 100% of the Fund, each in a percentage equal to their outstanding Units divided by the total Units outstanding (an "Ownership Interest"). There are three classes of Units available for Members: Class A Units, Class B Units and Class C Units. The Class of Units a Member owns is based on the size of the Member's investment and is tiered by dollar amount as follows: Members with a Capital Account up to \$250,000 will own Class C Units, Members with a Capital Account between \$250,000 and \$1,000,000 will own Class B Units, and Members with a Capital Account of \$1,000,000 or greater will own Class A Units. The Units are identical, with the exception of the

ratios at which Excess Distributable Cash (or "EDC") is distributed as between the Manager and the Members.

**Investor Offerings:**

Investors will have two investment options:

1. Membership Units of the Fund; or
2. Secured Notes from the Fund.

**Minimum Investment:**

\$50,000 per unique Investor, which amount may be adjusted in the sole discretion of the Manager. There is no set ceiling on the amount of investment from each Investor and will be at the discretion of the Manager.

**Financial Statements and CPA Audit:**

The Fund shall prepare its financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") or such other methodology as determined to be appropriate for the Fund by the Manager in consultation with the Fund's CPA. The Manager shall also cause the Fund to have its financial statements audited on an annual basis by a qualified CPA once the Fund has reached \$5,000,000 in total Investment Capital, or as required by any particular federal or state regulations. These statements and audits shall be made available to Investors.

**Management Fee:**

The Manager will charge the Fund an annualized Management Fee of 1.5% of the total Stated Value of the Fund's investments in Fund Assets. The Management Fee will be calculated, prorated, and paid by the Fund at the end of each calendar month, regardless of the Fund's performance or whether there will be any cash available for distribution to the Members after payment of the Management Fee.

**Loan Servicing Fee:**

The Manager will charge the Fund an annualized Loan Servicing Fee of 0.5% of the total unpaid principal balance of any loan obligations being serviced by the Fund or on behalf of the Fund. The Loan Servicing Fee will be calculated, prorated, and paid by the Fund at the end of each calendar month, regardless of the Fund's performance or whether there will be any cash available for distribution to the Members after payment of the Management Fee.

**Other Fees or Amounts Payable to the Manager or Affiliates:**

The Originator will collect 50% of any loan origination fees or extension fees paid by Borrowers to the Fund with respect to Mortgage Loans. In the event the Manager originates Mortgage Loans itself, the Fund may pay the Manager a commercially reasonable loan origination fee or loan extension fee, as determined by the Manager in its sole discretion.

The Manager or Paul or Joel Worcester may, in the Manager's sole discretion, also charge the Fund a

guarantee fee in the amount of up to 2% of a Credit Facility guaranteed by the Manager or such Persons.

The Manager or an Affiliate may, in the Manager's sole discretion, also charge the Fund an acquisition fee in the amount 1% - 3% of the Stated Value of a Fund Asset acquired by the Fund, which acquisition fee shall at all times be commercially reasonable and never exceed 3% of the Stated Value of the Fund Asset.

The Manager or an Affiliate may, in the Manager's sole discretion also charge the Fund a construction fee with respect any Fund Assets under construction.

**Activities of Fund:**

All identification of property, due diligence, and underwriting of Assets for the Fund or any Special Purpose Vehicles (or "SPVs") owned by the Fund will be done by the Manager for the benefit of the Fund or SPVs. The Manager may subcontract due diligence functions to third parties (e.g. appraisers, inspectors, subcontractors, real estate brokers, etc.) for the benefit of the Fund, the costs of which will be considered Fund Expenses.

**Fund Administration:**

The Fund intends to retain the services of Fairway America as Fund Administrator to provide professional Fund administration and Investor relations functions, the cost of which shall be a Fund Expense.

**Note Holders/Notes:**

The Fund will borrow money from time to time from Note Holders who will be issued Notes of varying maturities as determined by the Manager. Note Holders will be lenders to the Fund on a Pari Passu basis and have a blanket secured interest in the Fund Assets. This secured interest will be in a senior position except in circumstances where individual Fund assets have been or are being pledged to any senior lender pursuant to a Credit Facility.

The Fund may have multiple tiers of rates based on the amount of money lent from a Note Holder and the duration of the maturity. These tiers may change from time to time. The interest rate for each maturity date and dollar amount combination will be set by the Manager in a Note Schedule to be published periodically. Notes may be purchased, with the consent of the Manager, at any time at the interest rate and terms defined for that period by the Manager. Accrued interest under the Notes will be paid to the Note Holders on a quarterly basis, although the Fund may make more frequent payments of accrued interest as determined by the Manager in its sole discretion. The Fund may prepay the outstanding principal and interest to any Note Holder at any time without penalty.

Investors may complete and return a Note Holder Subscription Booklet to the Fund at any time during the Offering, and the applicable interest rate identified in the Note Schedule in effect as of the Deposit Date will be the applicable interest rate for the Note ultimately purchased by the Investor. However, the purchase of the Note will only become effective as of the date upon which the Company accepts the Investor's subscription and transfers the Investor's funds from the Subscription Account into the Operating Account. The Investor's deposited funds earn no interest while held in the Subscription Account.

**Note Holder Returns:**

Note Holders will be paid, on a Pari Passu basis, a specific rate of return as detailed on a periodic Note Schedule published by the Fund. The returns will vary based on amount, the size of investment, the duration of the Note term, market conditions at the time of issuance, and other factors. No payments of accrued interest will be made on a periodic basis with respect to the Notes, rather, all accrued interest will be paid in full in connection with repayment of the principal amount upon the maturity of the Notes. See the current Note Schedule provided with the Note Holder Subscription Documents.

**Membership Units:**

The Fund will sell Membership Units at a "Unit Price" that will fluctuate quarterly based on the total collective "Stated Value" of the Fund Assets. The Stated Value of any individual Fund Asset will be determined on the last day of each calendar quarter by the Manager in its sole discretion. The Manager, however, will establish and follow a methodology for determining the Stated Value of the Fund Assets, which it may modify, alter, amend, or improve from time to time in its sole discretion.

Investors may complete and return a Member Subscription Booklet to the Fund at any time during the Offering. However, an investment in the Membership Units will become effective as an equity investment *only* as of the first day of the quarter (the "Effective Date") following the date the Fund receives the Investor's completed Member Subscription Booklet (including the Investor Suitability Statement and a signature page to the Operating Agreement), the Investor's payment by check or wire transfer for the total purchase price for the Units being subscribed for is transferred into the Fund's holding account (the "Subscription Account"), and the Fund receives such other documentation as is deemed appropriate by the Manager (the "Deposit Date"), *and* upon the Fund's acceptance of the subscription in the sole discretion of the Manager and the Fund's transfer of the Investor's money into its operating account (the "Operating Account"). No

interest will be earned or paid on the Investor's money while it is in the Subscription Account.

The Fund may use the Investor's money between the Deposit Date and the Effective Date, provided that any amounts drawn by the Fund from the Subscription Account into the Operating Account will be treated as a loan to the Fund for which the Investor will receive interest at 8% (annualized) during the period between the Deposit Date and the Effective Date, and for which the Investor will receive a 1099 Statement for passive interest income. The Investor will become a Member of the Fund only after the Effective Date and upon acceptance of the subscription by the Manager, and only upon acceptance of the Investor as a Member will the investment, or portions drawn from the Subscription Account, be treated as an equity investment in the Fund. The Fund may refund amounts in the Subscription Account at any time.

**Target Overall Return:**

**The Fund's objective is to produce an overall return to Members in the range of 9% to 12% annually.** Subject to performance of the Fund and after paying all Fund Expenses, including the Management Fee, the Loan Servicing Fee, and the other fees and amounts payable to the Manager, Affiliates, and other third parties as further described in this PPM, the Members may receive on a quarterly basis a Preferred Return of 8% and a portion of the Excess Distributable Cash, as apportioned between the Members and the Manager, and as further apportioned among the Members according to their class of Units and their respective Ownership Interests.

Should the Fund meet its financial models and achieve its objectives, these Distributions would equate to an overall return for the Members in an expected range of 9% to 12% annually. **However, an investment in the Fund is inherently speculative and no specific return on Investor Capital or even return of Investor Capital can be promised or guaranteed.**

**Distributable Cash:**

The Manager will determine whether there is any Distributable Cash available for distribution to the Members on a quarterly basis. The Manager reserves the right to determine in its sole discretion whether there is any Distributable Cash or whether to make a Distribution or not. Generally speaking, Distributable Cash will be any cash left over in the Fund after (i) paying interest or principal on any Credit Facilities, any Redemptions or early repayment of Notes as determined by the Manager, Fund Expenses, and any interest payments on the Notes or repayment of any maturing Notes, and (ii) reserving any cash for future, contingent, or unknown liabilities of the Fund or any other purposes of the Fund.

**Preferred Return:**

First, from any Distributable Cash Members will receive a **preferred return of 8%** (the "Preferred Return") of their contributed but unreturned Capital on a quarterly basis according to their respective positive Capital Account balances. The Preferred Return is not guaranteed, meaning that the Preferred Return will not be paid in any particular quarter if the Fund does not have sufficient capital available to pay it, as determined by the Manager in its sole discretion. The Preferred Return is also noncumulative, meaning that any Preferred Return not paid to the Members in full in any given quarter shall not be compounded or otherwise carried forward, except for the Clawback provided in the Operating Agreement.

**Excess Distributable Cash (EDC):**

Second, from any Distributable Cash, any EDC available at the end of each quarter will be apportioned to the Members according to their respective Ownership Interests as of such date, and then further reapportioned and distributed between each Member and the Manager (subject to the Manager EDC Clawback) on a Pari Passu basis as follows:

1. With respect to a Class C Member, 50% of the EDC initially apportioned to the Class C Members shall be distributed to the Class C Member and 50% of the EDC shall be paid to the Manager;
2. With respect to a Class B Member, 60% of the EDC initially apportioned to the Class B Members shall be distributed to the Class B Member and 40% of the EDC shall be paid to the Manager; and
3. With respect to a Class A Member, 70% of the EDC initially apportioned to the Class A Members shall be distributed to the Class A Member and 30% of the EDC shall be paid to the Manager.

In addition to the foregoing, in order to create an incentive to invest in the early stages of the Fund, the Manager has agreed to forego 10% of the EDC to be initially apportioned to it and, instead, will apportion the 10% of EDC to those Members that contribute the first \$3,000,000 of Investment Capital to the Fund. For example, a Class C Member that contributes a portion of the Fund's first \$3,000,000 in Investment Capital will receive 60% of the EDC initially apportioned to the Class C Members, instead of 50%, with respect solely to those Units acquired by the Class C Member with the Investor Capital contributed by the Class C Member as part of the Fund's first \$3,000,000 in Investment Capital, and the Manager will receive 40% of EDC initially apportioned to it instead of 50%.

The Members' portion of EDC shall be considered distributions for accounting and tax purposes and the Manager's portion of EDC shall be considered additional

compensation paid to the Manager for tax purposes and as a Fund Expense for accounting purposes.

**Manager EDC Clawback:**

The Manager's portion of any EDC shall be subject to forfeiture to the Members if the Fund fails to pay the Members their Preferred Return in full for any of the prior consecutive four quarters (the "Manager EDC Clawback" or "Clawback"). The amount of the Clawback shall not exceed the lesser of (i) the total amount of the Preferred Return not paid to the Members in full over the prior four consecutive quarters and (ii) the entire amount of EDC that would otherwise be paid to the Manager in the given quarter.

**Distributions:**

The following outlines the general priority for the Distributions from the Fund:

1. Interest and principal payments on any Credit Facility;
2. Interest on or repayments of any amounts borrowed by the Fund from the Subscription Account;
3. Interest on Notes and repayment of any maturing Notes;
4. Any early repayment of Notes;
5. Any eligible Redemptions of Units;
6. All Fund Expenses (including the Management Fee, the Loan Servicing Fee, any guarantee fees, and the other fees or amounts paid to the Manager, Affiliates, or other third parties);
7. The Preferred Return to the Members; and
8. Any EDC distributable to the Members and the Manager (subject to the Clawback).

This order of priority is expected, but changes to the order of priority may occur as a result of court order, administrative ruling, change in the law, or agreement of the affected parties.

In connection with the liquidation of the Fund, all accrued interest and outstanding principal of the Notes will be paid in full prior to any Distributions to the Members and the Investment Capital will be returned to the Members after the Preferred Return for the given quarter is paid in full and prior to any Distributions of EDC.

In all cases, the Manager has the right, in its sole discretion, to withhold any Distribution, including the Preferred Return or EDC, if such Distribution would not, in the Manager's discretion, be in the best interests of the Fund. The Manager also has the right, in its sole discretion, to withhold a Distribution and use the withheld funds as reserves for future liabilities or expenses or to acquire Fund Assets.

**Fund Expenses:**

Fund Expenses (including SPV expenses) shall include, but not necessarily be limited to the following: fund organizational costs, costs to acquire or dispose of Fund Assets, accounting and related costs for tax return preparation, financial statement preparation, or audits, legal fees and costs, filing, licensing, or other governmental fees, other third-party audits, the Management Fee payable to the Manager, the Loan Servicing Fee payable to the Manager, any guarantee fees payable to the Manager or Joel or Paul Worcester, the other fees and amounts payable to the Manager or Affiliates as further described in this PPM, fund administration costs, capital acquisition fees and costs, loan origination fees or other fees or costs associated with any Credit Facilities, costs associated with ownership of real property (e.g., property improvement and rehabilitation costs not otherwise capitalized, sales commissions, property taxes, property management, hazard insurance, and utilities), and any other expenses associated with operation of the Fund or management of its Assets.

The Fund may incur fees to eligible third parties for raising capital on its behalf in the discretion of the Manager. Any such fees shall be borne by the Fund as part of the Fund Expenses.

The Manager shall be reimbursed for all reasonable out of pocket expenses incurred on behalf of the Fund which shall be considered Fund Expenses.

**Minimum Offering:**

The Fund shall begin making its investments as summarized herein immediately upon receipt of Investment Capital, or as soon thereafter as is practicable in the judgment of the Manager. The Fund expects to raise capital on an ongoing basis and thus shall begin making investments immediately.

**Maximum Offering:**

The Fund seeks up to \$50,000,000 in contributed Investment Capital from Members and Note Holders combined (the "Maximum Offering Amount") over the lifetime of the Fund, which amount may be increased in the sole discretion of the Manager. The Manager may or may not raise the full amount during the lifetime of the Fund. The Manager will be entitled to sell additional Membership Units or Notes at any time and on an ongoing basis so long as the Fund's Investment Capital does not exceed the Maximum Offering Amount, which may be increased as described above. Upon reaching the Maximum Offering Amount, if there are Redemption requests that are granted or Note Repayments that bring the Fund's total net Investment Capital raised below the Maximum Offering Amount, the Manager may again raise additional equity or issue additional Notes up to the Maximum Offering Amount

and may do so at any time during the life of the Fund so long as the total net Investment Capital of the Fund does not exceed the Maximum Offering Amount, subject to the Manager's sole discretion to increase the Maximum Offering Amount.

**Term:**

The Fund is an open-ended, "evergreen" fund with no set end date. The Manager expects to originate and acquire Fund Assets on a frequent and ongoing basis and will continue to do so indefinitely or until the Manager believes market conditions do not justify doing so. The Manager intends generally to utilize the return of capital from the disposition of Fund Assets to originate and acquire new Fund Assets rather than return the capital to Members. However, the Manager expects to manage the Fund's investments and capital structure in such a manner as to attempt to provide a reasonable level of capability for the Fund to accommodate Redemption requests given the relatively illiquid nature of real estate based investments in general.

If the Manager deems it appropriate based on evolving market conditions and dynamics, the Manager will cease to originate and acquire new Fund Assets and will distribute any return of capital from the disposition of Fund Assets back to the Members until all Fund Assets have been liquidated. The Manager may choose to return capital to the Members at any time during the life of the Fund. The Manager will have no obligation to continue the Fund even if there are investment opportunities the Fund may pursue.

**Use of Leverage/Credit Facilities:**

The Fund or any SPV(s) of the Fund may choose to borrow money from time to time from one or more senior lenders and may pledge one or more Fund Assets as collateral for any such borrowing. The Operating Agreement grants the Manager significant latitude and discretion in its ability to use Credit Facilities in the operation of the Fund.

Any Facility shall be nonrecourse to the Members. The Manager (or its principals) and the Fund may agree to provide its guarantee for a given Facility but are not required to do so. If the Manager or its principals agree, in their sole discretion, to approve the Fund's guarantee to any Credit Facility, the Fund may also receive a fee.

If the Manager or its principals agree, in their sole discretion, to provide its or their guarantee to any Credit Facility, the Manager (or its principals) may also receive a fee not to exceed 2% of the amount guaranteed. Any Facility will likely have covenants that affect the Company, any SPVs, and the Manager.

**Redemption and Lockup Period:**

No Member will be allowed to issue a request for a redemption of the Member's Units (a "Redemption Request") during the first 48 months of the Member's investment (the "Lockup Period"). Notwithstanding the foregoing, Redemption Requests for reasons of financial hardship or emergency during the Lockup Period may be considered by the Manager in its sole discretion on a case by case basis subject to a penalty (the "Redemption Fee") equal to 5% of the then current Unit Price. The Manager shall have no obligation to consider any hardship Redemption Requests during the Lockup Period and shall be entitled to charge a higher or lower Redemption Fee. All Redemption Fees charged and collected will be considered income to the Fund.

After the Lockup Period, a Member will have the right to make a Redemption Request as of the 48-month anniversary of the Effective Date of the Member's purchase of Units (the "Anniversary Date") or at any time thereafter, provided that the Member delivers written notice of the Redemption Request at least 12-months in advance of the desired date of the redemption. The net result of these provisions is that, other than in the case of hardship Redemption Requests granted by the Manager in its sole discretion, the earliest any Member will be able to redeem their Units will be at the 48-month anniversary of the Effective Date of the Member's purchase of the Units. All Redemption Requests will be considered on a first come, first served basis.

Notwithstanding anything to the contrary in this PPM or the Subscription Documents, the Manager shall have no obligation to grant any particular Redemption Request and shall retain sole discretion as to whether or not to redeem any Unit. The Manager may redeem Membership Units Pari Passu at any time at the then current Unit Price in its sole discretion without penalty to the Manager or the Fund.

All of the above parameters notwithstanding, the Manager will endeavor to manage the Fund in such a manner as to be able to accommodate Redemption Requests at any time after the Lockup Period and as near the Anniversary Date upon which a request is made as consistently as possible.

**Note Holder Early Repayment:**

A Note Holder may request an early repayment of the Note (a "Repayment") prior to its maturity date subject to a penalty equal to a downward interest rate adjustment to the appropriate Note term consistent with the Repayment date (if applicable) plus an Early Repayment Fee of 5% of the principal balance of the Note subject to the discretion of the Manager. The granting or not of the early Repayment request shall be subject to the sole discretion of the Manager.

**Eligible Investors:**

Membership Units will be offered solely to “accredited investors,” as that term is defined by Rule 501 of the Securities Act of 1933, and who satisfy eligibility requirements set from time to time by the Fund and its Manager. In the sole discretion of the Manager, the Fund may establish a structure to secure investments in the fund from foreign Investors.

## FREQUENTLY ASKED QUESTIONS

The information included in the following Frequently Asked Questions is not a complete overview of the Offering and does not contain all of the information that Investors should consider before investing in the Fund. Investors should read the entire PPM thoroughly and carefully, including the section "Risk Factors."

### **What are the differences between the two investment options?**

Investors that purchase Notes will be lending money to the Fund and become Note Holders. Note Holders will be lenders to the Fund on a Pari Passu basis with other Note Holders and have a blanket secured interest in the Fund Assets. Note Holders will be issued Notes to evidence their debt investment in the Fund. This secured interest will be in a senior position except in circumstances where individual Fund Assets have been or are being pledged by the Fund to any Credit Facility, as discussed in greater detail below. Note Holders will be issued Notes at interest rates which may vary from time to time, depending on investment amount and maturity of the Note, according to a Note Schedule provided by the Manager periodically. The Note Schedule may contain multiple tiers of rates based on the amount of money lent by the Note Holder and duration of the maturity date. These tiers (including amounts, maturities, and rates) may change from time to time at the prevailing interest rate and terms defined on the Note Schedule for a given period. No payments of accrued interest will be made on a periodic basis with respect to the Notes, rather, all accrued interest will be paid in full in connection with repayment of the principal amount upon the maturity of the Notes. Subject to approval by the Manager, Notes may be purchased at any time during the calendar quarter at the interest rate and terms defined for that period on the Note Schedule. The Fund may prepay the outstanding principal balance and interest to any Note Holder at any time without penalty. The interests of the Note Holders will be represented by a Note Holder Representative, who will initially be the Manager. The Note Holders will have very limited rights to direct the Representative to take any action with respect to the Notes in the event of a default of the Fund's obligations under the Notes.

Investors that purchase Units in the Fund will become Members. Members will be issued Units to evidence their equity investment in the Fund. Subject to performance of the Fund, and after paying interest or principal due under any Credit Facilities or Notes, any eligible Redemptions of Membership Units or early repayment of Notes as determined by the Manager, Fund Expenses (including the Management Fee, the Loan Servicing Fee, and the other fees or amounts payable to the Manager, Affiliates, or other third parties as further described in this PPM), Members will receive a Preferred Return of 8% *per annum* of their contributed but unreturned Capital on a quarterly basis. The Preferred Return is not guaranteed, meaning that the Preferred Return will not be paid in any particular quarter if the Fund does not have sufficient capital available to pay it, as determined by the Manager in its sole discretion. The Preferred Return is also noncumulative, meaning that any Preferred Return not paid to the Members in full in any given quarter shall not be compounded or otherwise carried forward except, as provided in the Operating Agreement, any EDC that would otherwise be distributable to the Manager in any of the following four consecutive quarters after the given quarter in which the Preferred Return is not paid in full shall be forfeited by the Manager and distributed to the Members pursuant to the Clawback.

Members may also receive any Excess Distributable Cash on a quarterly basis, based on their class of Units and their pro rata Ownership Interests, as further described herein. The Manager's portion of the EDC shall be subject to a Clawback for up to four consecutive quarters after any shortfall of the Preferred Return (see "Manager EDC Clawback" in the Definition of Terms).

After a 48-month Lockup Period, and subject to providing 12-months' advance written notice to the Manager, Members may ask the Fund to redeem their Membership Units at any time. Members will be issued IRS Form K-1's annually for any distributions received and any other tax allocations by virtue of their membership in the Fund.

### **What happens to the Fund if the Manager is not around for any reason to manage the affairs of the Fund?**

The Manager recognizes that one of the main concerns of Investors is what would happen in the event the Manager is not available to manage the Fund for whatever reason. Therefore, we have proactively attempted to address and mitigate this concern, including the following:

- Under the Fund's Operating Agreement, the Manager is contractually obligated to provide at least a one-year notice to the Members before being permitted to resign. Members may elect a replacement Manager by Majority vote.
- Subject to availability at commercially reasonable premiums, when the Fund first reaches \$5,000,000 in total capital raised the Manager intends to purchase for the benefit of the Fund life insurance policies on the lives of both Paul and Joel Worcester in the minimum amount of \$1,000,000 each. This amount is expected to be sufficient to allow the Manager ample time to procure any necessary replacements without undue duress or financial pressure.
- The Manager may consult from time to time with an experienced team of advisors comprised of real estate industry related professionals, a CPA, and a real estate lawyer.
- The Manager's principals are Paul and Joel Worcester. Each is considered an integral part of the Fund's investment strategy and the loss of either of them could adversely affect the Fund's performance. The Fund's Operating Agreement contains a provision that, upon the occurrence of the Key Persons Event, the Fund will cease making new investments for one year after the Key Persons Event. The Members shall have the right to appoint a replacement key person during the one year period. If no replacement key person is appointed by a vote of the Members holding a Majority within the one year after the Key Persons Event, the Fund shall permanently cease to make new investments and proceed with an orderly liquidation of its Assets.

### **What sort of Fund oversight and governance exists to help protect Investors?**

Many well developed best practices for corporate governance have been established and promoted by various leading organizations in the real estate fund industry. While the Manager has the flexibility to modify its practices over time to meet the needs of the Fund, WFM has endeavored to incorporate best practices into the way it manages the Fund. Among others, WFM accomplishes this objective in the following ways:

- The Manager will cause the Fund to have year-end financial statements and tax returns prepared each year by a certified public accountant (CPA), and these materials will be available to Investors upon request.
- The Fund's annual financial statements will be audited by an outside CPA for any year in which the Fund has at least \$5,000,000 in total capital raised as of December 31, or as required by any particular state or federal regulations. The audited financial statements, if prepared, will be available to Investors upon request.
- The Manager may be removed for Cause by a vote of the Members collectively holding at least 80% of the total Ownership Interest entitled to vote at any time during the life of the Fund. The Members will have the ability to elect a replacement Manager by a vote of the Members holding a Majority.

- The Manager anticipates providing Members with frequent (typically quarterly) information and communication about the Fund along with investment statements and any distributions or interest.
- Meetings of the Members will be held a minimum of once per year to provide a forum for Members to ask questions. Members also have the ability (upon the determination of the Members holding a Majority) to require the Manager to convene a meeting (with appropriate notice) at any time.
- The Manager has engaged Fairway America, LLC to provide the Fund with professional administration in the areas of financial statement preparation, investor subscriptions and redemptions, and other back office administration functions. Fairway America has the relevant infrastructure, resources, and experience that are expected to significantly assist the Fund and Manager in the professional administration of the Fund.

### **How does the Fund make money?**

The Fund intends to receive income from the following sources:

- Any interest collected from Mortgage Loans;
- Any interest collected on deposited funds or receivables owned by the Fund;
- Any rent collected on Fund Assets owned by the Fund (e.g., in the case of real property acquired by the Fund via foreclosure);
- Any net sale proceeds in excess of the basis on the disposition of any Fund Assets;
- Any Redemption Fees or Early Repayment Fees; and
- 50% of any loan origination fees or loan extension fees collected from Borrowers with respect to their Mortgage Loans, with the other 50% going to the Originator.

### **How does the Manager or Affiliates get paid?**

The following fees and other amounts are included in Fund Expenses and payable to the Manager or Affiliates as described herein:

- A 1.5% Management Fee payable to the Manager on a monthly basis;
- A 0.5% Loan Servicing Fee payable to the Manager on a monthly basis;
- A variable portion of the EDC will be paid to the Manager as, if, and when distributed by the Fund, subject to the Clawback, as further described herein;
- 50% of any loan origination fees or loan extension fees collected from Borrowers with respect to Mortgage Loans will be paid to the Manager or the Originator, with the other 50% going to the Fund; provided that in the event the Manager originates Mortgage Loans itself, the Fund may pay the Manager a commercially reasonable loan origination fee for such loan origination services, as determined by the Manager in its sole discretion;
- The Manager or Paul or Joel Worcester may, in the Manager's sole discretion, charge the Fund a guarantee fee in the amount of up to 2% of a Credit Facility guaranteed by the Manager or such Persons;
- The Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund an acquisition fee in the amount 1% - 3% of the Stated Value of a Fund Asset acquired by the Fund, which acquisition fee shall at all times be commercially reasonable and never exceed 3% of the Stated Value of the Fund Asset; and
- The Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund a construction fee with respect any Fund Assets under construction.

The Manager or Originator may, in the Manager's sole discretion, charge the Fund other market-based processing, underwriting, and inspection fees, which shall at all times be commercially reasonable to help cover expenses associated with processing, underwriting, and inspecting any Fund Assets originated, acquired or extended.

### **Are there any conflicts of interest between the Fund and the Manager?**

Yes. As hard as WFM may try to adhere to governance best practices, it is impossible to eliminate every conceivable potential conflict of interest between the Manager and the Fund. Please see the "CONFLICTS OF INTEREST" section for more details.

### **What do I need to do to purchase Units and become a Member?**

Subscription Agreements from Investors may be submitted to the Fund at any time during the Offering and accepted as of the first date of each calendar quarter. Investors who wish to purchase Units must fully complete, sign and submit to the Manager a Subscription Agreement (including the Investor Suitability Statement) and a signature page to the Operating Agreement. Upon the Manager's receipt of a fully completed Subscription Agreement (including the Investor Suitability Statement) and other such documentation as is deemed appropriate by the Manager, and a check or wire for the purchase price of the Units to be subscribed for by the Investor, the Company will immediately deposit the funds into its holding account (the "Subscription Account") for subscribed but unissued Units, the date of which shall be the "Deposit Date." However, an investment in the Units only becomes effective as an equity investment in the Fund as of the first day of the calendar quarter (the "Effective Date") immediately following the Deposit Date upon the Manager's acceptance of the Subscription Agreement and the Fund's transfer of the funds into its operating account (the "Operating Account"). An Investor whose Subscription Agreement is accepted by the Fund will become a Member as of the relevant Effective Date. Funds held in the Subscription Account shall pay no interest to the Investor. An Investor's obligation to purchase Units with the Investor's full deposited amount shall be irrevocable during the time between the Deposit Date and the first day of the subsequent calendar quarter.

The Fund may utilize a new Investor's funds for its operations between the Deposit Date and the Effective Date by transferring all or a portion of such funds as determined by the Manager (the date of which shall be the "Transfer Date") from the Subscription Account to the Operating Account. Any such amounts transferred shall be treated as a loan to the Fund for which the Investor shall receive interest at eight percent (8%) (annualized) during the period between the Transfer Date and the Effective Date. The Fund will pay the accrued interest (running from the Transfer Date of any funds to the Effective Date) on any funds transferred from the Subscription Account to the Operating Account in the form of a check to the Investor to be prepared and mailed on or shortly after the Effective Date.

As soon after the Effective Date as is practicable (typically on or around the 15<sup>th</sup> of the first month of any calendar quarter), the Fund shall issue Units to the Investor effective as of the Effective Date at the prevailing Unit Price for any and all amounts transferred into the Operating Account since the Deposit Date (i.e., funds that were treated as loaned to the Fund between the Deposit Date and the Effective Date). On the Effective Date, the Fund shall also be obligated to transfer some or all of any remaining Investor funds from the Subscription Account into the Operating Account and issue Units at the prevailing Unit Price, or to notify the Investor of any amounts it intends to let remain in the Subscription Account based on the Fund's financial position or projected yields at the time, or for other reasons in the Manager's sole discretion. Upon notice to the Investor of any such amounts it does not intend to transfer to the Operating Account and issue Units, the Investor shall have ten days to decide to either

leave the money with the Fund in its Subscription Account, or to have the Fund refund the remaining funds in the Subscription Account to the Investor. If an Investor chooses the refund option, the Investor shall have no further right or obligation to use these remaining funds to purchase Units. If an Investor chooses to leave the remaining funds in the Subscription Account, the Investor's obligation to utilize such funds to purchase Units (and the Fund's right to transfer the funds to its Operating Account) shall once again be irrevocable, and the remaining funds shall again be treated during each successive quarter as detailed in this section. The Fund may refund amounts in a Subscription Account at any time in the Manager's sole discretion.

### **How is the price of a Membership Unit (the "Unit Price") determined?**

The initial Unit Price will be initially be \$1,000 but will fluctuate on a quarterly basis, starting with the first (full) quarter after the Company acquires its first Fund Asset, based on the collective Stated Value of the Fund's investments in individual Fund Assets. At the end of each quarter, the price of a Unit will be calculated by dividing the total Stated Value of all of the Assets by the total number of outstanding Units. The Stated Value of each Fund Asset will be determined on the last day of each calendar quarter by the Manager in its sole discretion. The Manager, however, will establish and follow a methodology for determining the Stated Value of each Asset and may modify, alter, or improve the methodology from time to time in its sole discretion. All determinations by the Manager in good faith of the Stated Value and the Unit Price shall be conclusive and binding on all Members for all purposes under the Agreement. The Stated Value of the Fund Assets will be used to assist in the determination of the Unit Price of the Membership Units. For more information on the Stated Value and the Unit Price, please see the section "RISK FACTORS -- Risks Specific to Members."

### **Can Members sell or transfer their Units?**

The Units are restricted as to sale and transfer. Some of the factors that prevent Investors from transferring the Units include:

- No public market exists for the Units, and one is not expected to develop;
- Restrictions imposed by federal and state securities laws;
- Restrictions imposed by the Operating Agreement, including the necessity of obtaining the Manager's consent, which it may withhold;
- The application of the Investor suitability standards to the proposed transferees of the Units; and
- Restrictions regarding the potential of the Fund to become, through its limited liability company ("LLC") structure, a "publicly traded partnership" (generally an LLC or partnership whose interests are publicly traded or frequently transferred) under the Internal Revenue Code of 1986, as amended (the "Code") or become subject to registration under the Investment Company Act of 1940.

### **What do I need to do to purchase a Note and become a Note Holder?**

Investors who wish to purchase a Note or Notes must complete and sign the Note Holder Subscription Agreement, a signature page to the Intercreditor Agreement, an Investor Suitability Statement, a Note Schedule, and such other documentation as is deemed appropriate by the Manager (collectively, the "Note Holder Subscription Documents"), and send them together with a check or wire for the purchase price of the Note to the Manager.

Upon receipt of the Note Holder Subscription Documents and payment in full of the amount indicated in those documents, the Fund will immediately deposit the funds received into its

Subscription Account for subscribed but unissued Notes, the date of which deposit shall be the "Deposit Date." Investors may execute the Note Holder Subscription Documents at any time and deliver them to the Manager. Subscription Agreements for Notes, however, will only be accepted, if at all, as of the last day of a calendar month unless the Manager makes an exception in its sole discretion. The applicable interest rate identified in the Note Schedule in effect as of the Deposit Date will be the applicable interest rate for the Note purchased by the Investor. However, the purchase of the Note will only become effective as of the date upon which the Company accepts the Note Holder Subscription Documents and transfers the Investor's funds into its Operating Account (the "Transfer Date"). On the Transfer Date, the Fund will be obligated to transfer all the money received from the Investor to its Operating Account. Investor funds earn no interest while held in the Subscription Account. Promptly following the Transfer Date, the Company will provide the Investor with counter-executed Note Holder Subscription Documents, all of which, including the Promissory Note, will be dated as of the Transfer Date. An Investor's obligation to purchase a Note in the full amount indicated in the Note Holder Subscription Documents and delivered to the Fund shall be irrevocable until 30 days after the Deposit Date.

If the Fund has not transferred the Investor's funds to its Operating Account within 30 days after the Deposit Date, the Fund shall inform the Investor, in writing, that it has not done so, and the Investor shall have 10 days to decide to either leave the money with the Company in its Subscription Account or to have the Company return the funds from the Subscription Account to the Investor. If an Investor chooses the reimbursement option, the Investor shall have no further right or obligation to use these funds to purchase a Note. If an Investor chooses to leave the remaining funds in the Subscription Account, the Investor's obligation to utilize such funds to purchase Note (and the Company's right to transfer the funds to its Operating Account) shall once again be irrevocable for a period of 30 days, and the funds shall again be treated for the next 30 days as detailed in this section

### **What happens at maturity of my Note?**

A Note Holder will be required to provide 60 days' written notice to the Manager of Note Holder's desire to cash-out and receive payment of outstanding principal and interest upon the Maturity Date (the "Cash-Out Notice"). If the Note Holder does not provide the Cash-Out Notice at least 60 days prior to the Maturity Date, the Note upon the Maturity Date will automatically extend at the Note Rate less one percent (1%) until either (i) the Note Holder notifies the Fund that it wishes for the outstanding balance of the Note to be rolled over into a new Note, based on the then current Note Schedule, and such new Note is executed, or (ii) 60 days after the Note Holder provides a Cash-Out Notice.

Notwithstanding anything to the contrary in this PPM, the Fund will also have the right to defer payment of any Note after its Maturity Date and continue to make interest payments on a monthly basis to the Note Holder at the existing Note Rate plus one percent (1%) for up to 90 days beyond the date on which a Note would be required to be repaid based on a Cash-Out Notice. The Fund's deferral of repayment described in the preceding sentence shall not constitute an event of default under a Note.

### **As a Note Holder, can I sell or assign my Note?**

Note Holders will not have the power to sell or transfer their Notes, except upon written consent of the Manager. Since the Notes are offered only to accredited investors, and for other reasons, it is not possible to freely allow the transfer of Notes unilaterally on the part of the Note Holder. The Manager will review any proposed transfer and may withhold its

consent due to a violation or perceived violation of state or federal securities laws, ERISA laws, or for any reason in its sole discretion.

**Is my Note liquid at any time?**

No. Each Note has a defined and specific maturity date. A Note Holder may request an early repayment of the Note prior to its maturity date subject to an Early Repayment Fee of five percent (5%) of the principal balance of the Note plus an amount derived from applying a downward interest rate adjustment based on the appropriate Note term from the Note Schedule which was executed by the Note Holder and consistent with the actual repayment date (if applicable), as determined by the Manager. The granting or not of the early repayment request will be determined in the sole discretion of the Manager.

**How often are payments on the Notes made to Note Holders?**

All principal and accrued interest on the Notes shall be paid in full upon demand at the maturity of the Notes. The Fund will not make any periodic payments of principal or accrued interest under the Notes prior to their maturity.

**Who will represent the interests of the Note Holders?**

Pursuant to the Intercreditor Agreement and the Subscription Agreement, the Note Holder appoints the Manager as the initial "Representative," and any successor Representative, as determined by the Manager, as its true and lawful representative and attorney-in-fact in such Note Holder's name, place, and stead to make, execute, sign, acknowledge, file, and record all instruments, agreements, or documents as may be necessary or advisable to reflect the exercise by the Representative of any of the powers granted to it under the Subscription Agreement and the Intercreditor Agreement. The Representative will have the authority to sign all documents and take any action necessary to protect each Note Holder's Pari Passu rights in the Security. The Note Holders will have very limited rights under the Intercreditor Agreement to direct the Representative to take any particular action on their behalf in the event of a default of the Fund's obligations under the Notes. As a result of this relationship, there may be conflicts in interest as between the Fund and the Note Holders on one hand, and the Manager on the other hand.

**Do I have to pay a commission or load with my investment?**

The Manager will not charge a commission or any load for the purchase of the Units or Notes. However, the Fund may be a party to a subscription agreement which pays amounts to broker/dealers, financial advisors, or other licensed parties in connection with the sale of Units or Notes. The Manager will endeavor to pay commercially reasonable commissions or loads but will retain sole discretion as to the actual commissions it pays. Any commission or loads actually paid may be considered a Fund Expense. Investors who are introduced to the Fund through their own broker/dealer or advisor may have a separate obligation to that party, which is not considered a Fund Expense.

**When will the Fund start making investments?**

The Fund shall begin making its investments as summarized herein immediately upon receipt of Investment Capital from the Offering, or as soon thereafter as is practicable in the judgment of the Manager.

**Will Investors receive a copy of the Fund’s Operating Agreement?**

Yes. A copy of the Operating Agreement will be provided to Members as part of the Member Subscription Booklet and will be made available to Note Holders upon request. In the event of any conflict between the terms of this PPM and the Operating Agreement, the Operating Agreement will be controlling.

**How is the Fund formed for tax purposes?**

The Fund expects to be treated as a partnership for federal tax purposes and not as a corporation. Investors considering a purchase of the Units or Notes should consult their own tax advisor for advice on any personal tax consequences that may be associated with an investment in the Units or Notes. Also see “Tax Aspects of Offering.”

## DESCRIPTION OF FUND ASSETS AND UNDERWRITING GUIDELINES

The Manager will analyze and review a diversity of project investment opportunities on an ongoing basis. **THERE IS NO GUARANTEE THAT THE FUND WILL INVEST IN ANY PARTICULAR ASSET TYPE, PROJECT, OR OPPORTUNITY, AND THE FUND MAY OPT AGAINST PURSUING ANY PARTICULAR OPPORTUNITY.**

The Fund, either directly or through SPVs, which will be subsidiary LLCs wholly owned by the Fund, may acquire, improve, and sell single-family residential or multifamily assets. The Fund will typically acquire Assets that meet the following general guidelines:

- Sellers who, for various reasons, are in some position of distress which requires them to dispose of the property quickly or in other manner that does not allow them to realize full market value.
- REO property from other lenders who do not have the expertise, experience, time, or desire to take the necessary steps to maximize the property value.
- Properties purchased at auction, either through judicial or non-judicial foreclosures.
- Bulk purchases from Lenders willing to sell groups of properties at deeper discounts due to volume.
- Short sales on individual properties negotiated on a deal by deal basis with motivated sellers at discounts to perceived value.
- The real estate may require rehabilitation, repair, additions, or other improvements that will be accretive to the property's value upon completion.
- Acquisition price is typically below replacement cost or real market value.
- The expectation at acquisition is that the sum of the acquisition price plus the Fund's costs to repair/improve the property will be substantially below the expected future sales price by the Fund or would produce strong cash on cash returns when rented at expected levels.
- Well located real estate that is expected to outperform the general market over time.
- The Manager feels confident and comfortable and has experience, expertise, or track record with the location, size, property type, or other characteristics of the real estate.
- Tenant occupied property owned by a landlord looking to eliminate, reduce, or refine their portfolio of rental property.
- Select new-build construction opportunities when the lot is priced at a significant discount and is located in an area where the resulting market values after completion are clearly established.

## **UNDERWRITING GUIDELINES**

### **Underwriting Loans**

We utilize our extensive experience in effectively evaluating real estate to make conservative, common sense private loans. We make loans that do not fit the boxes of conventional bank and government sponsored lenders. We typically lend at 50% to 70% loan to value (or "LTV") in the markets that we own or desire to own property.

We look at collateral first. The more comfortable and familiar we are with the property and the property's location, the more willing we are to push the LTV to the 70% range. Although we have no intention of owning any of the properties we lend on, a main criterion that we use to lend is whether or not we would be happy purchasing the property at an amount above our loan against that property. Because we are also an active purchaser and operator, it is not difficult to utilize this criterion, and we find it very helpful.

We look at the Borrower second. The stronger the Borrower, the more willing we are to push the LTV to the 70% range. We assess the Borrower's credit and experience to determine the Borrower's ability to repay.

The loan administration process outlined below provides a picture of our typical loan process. This is a guideline only and we may or may not utilize every step of this process in any given situation depending on many factors, including but not limited to timing of closing, availability of information, loan-to-value ratios, and others, in the sole discretion of the Manager.

### **Underwriting Equity – Criteria and Considerations**

We have underwritten hundreds of multi-family properties since starting our company in late 2006. Learning how to effectively underwrite has been one of the keys to our success. It took us about five years and many iterations to develop our complex, yet relatively simple to review underwriting template. It is complex in regards to all that is input and the formulas utilized, yet it is simple in regards to readability of the final product. We continue to tweak and improve our underwriting template and process each year.

We have watched many aspiring multi-family real estate operators and sponsors try to succeed, and probably the biggest mistake we see, and the one that leads to the most failed projects, is overly optimistic underwriting. One of the easiest ways to succumb to overly optimistic underwriting is to focus too heavily on the seller's operating numbers. Sellers can easily make up operating adjustments or use deception to make their numbers look better before selling a property. We thoroughly review the seller's operating statements, rent rolls, and tax returns, but we use our own experience and judgment to arrive at what we think are reasonable and realistic pro forma numbers in a category if the seller's numbers don't match what our experience tells us we should estimate. In underwriting expenses, for example, our default is to use the seller's numbers if they are high but to use our own pro forma numbers if the seller's numbers are low, especially in the variable expense categories, such as repairs and maintenance, payroll, administration, cap ex, etc.

We attempt to take a conservative approach to underwriting, knowing from experience the many variations of expenses that can occur. As a long-term buy and hold operator, we have been able to study the income, expense, and capital improvement trends on specific properties. We continue to adjust our underwriting template and our underwriting process in light of the fresh operating statements that we review on thousands of multi-family units each month.

When underwriting a property, we try to focus on intrinsic value, investor return, and unrealized equity to determine whether we desire to add the property to our portfolio:

- **Intrinsic Value.** As a long-term operator, we analyze the potential investment on a deeper level than just the immediate cash flow or immediate equity. We assess the intrinsic value of a property, considering the property's location and the development and demand trends within our geographic area. Placing strong emphasis on intrinsic value provides insulation from market downturns.
- **Investor Return.** While we have far exceeded our investor return projections on individual projects to date, when underwriting up front we typically need to feel confident that we can conservatively obtain at least a ten percent (10%) cash on cash return for our investors immediately or within one to two years of a value add or development purchase.
- **Unrealized Equity.** Especially in a stable real estate market, we look for value add opportunities due to mismanagement and deferred maintenance or capital improvements, which often result in low rents and low economic occupancy. We often see these opportunities in properties that are owned by out-of-state or inexperienced owners. By establishing a strong on-site team, performing needed rehab, and raising rents, we believe we can increase the cash flow, the cash on cash return to our investors, and significantly increase the market value of a property, allowing us to refinance and recover a portion of the original investment while still maintaining a low loan to value.

Because we have an acquisitions department that focuses solely on acquiring new properties, and because we are very specialized, both in asset class and regional focus, we are able to review and offer on all assets that fit our criteria that come to market as well as many others that don't ever come to market, given our strong relationships with local apartment owners and nearly all of the top brokers in the KC market. This also allows us to be patient. We are aggressive in searching out deals, and we are quick to underwrite and make lots of offers, but we never feel pressure to purchase any given property that doesn't fit our criteria, as we know we will see many more. For every property we actually purchase, we underwrite approximately 100 properties and offer on many or most of them. When we can come to an agreement on a purchase at a price that makes sense to us, we utilize all of our resources to ensure that we perform our thorough due diligence efficiently and then close as quickly as necessary.

### **Loan Administration Process**

Generally speaking, we will utilize the following process to review, approve, and originate Mortgage Loans to Borrowers:

#### A) Submission/Prequalification

- 1) General description of Worcester Investments, LLC Loan Program/Initial submission received
  - a) Online Submission Form
  - b) Faxed form
  - c) Direct email from broker or Borrower
  - d) Phone call from broker or Borrower.

2) Acknowledgement emailed (or faxed or mailed if email not feasible) sent to submitter:

3) Prequalification Review

- a) High level review of initial submission information by Loan Officer.
  - Is this a property type we lend on?
  - Is it in a location we're familiar with and comfortable lending in?
  - Is the requested loan amount within our guidelines?
  - Is the asset value/LTV within guidelines?
  - Is the asset value reasonable?
  - What is the condition of the property? (Physical and financial.)
  - Age of property?
  - Special conditions? (E.g. historic landmark, etc.)
  - How dire is the Borrower's situation?
  - Does the Borrower have the assets available to cross?
  - Who holds title and how? (E.g. Physical person vs. entity)
  - How clear in the exit strategy?
  - How feasible and reasonable is the exit strategy?
  - Quick comps (MLS, Zillow, Loopnet, and other databases)

4) Communicate results of initial review to Borrower/broker.

- a) If deal fails the initial review, send decline letter

B) Application

a) Borrower must fill out and sign Worcester Investments, LLC application completely. Application and prequalification package will be reviewed by Loan Officer and team.

C) Term Sheet/LOI

- 1) Loan Officer, in coordination with the team, will develop Term Sheet or LOI.
  - a) Outline of initial pricing, terms and conditions
  - b) Other contingencies
  - c) Disclaimers
  - d) Deposit fee & Instructions
  - e) Expiration
- 2) Must get Loan Committee/underwriting approval and sign off before being sent

D) Underwriting/Due Diligence

- 1) When complete application package is complete:
  - a) Credit check & background check
  - b) Licensing & Compliance (if applicable to property type)
  - c) Valuation – Approved Appraisal
  - d) Market Assessment
  - e) Financial review
  - f) Site Visit
  - g) Principal meeting
  - h) Final Loan Committee/underwriting approval
- 2) Appraisal received

E) Loan Confirmation/Closing Checklist

- 1) Loan Confirmation confirmed based on underwriting/due diligence and appraisals
- 2) Detailed closing checklist
- 3) Deposit received

F) Loan Processing

- 1) Load document information into system
- 2) Order title
- 3) Title report review
- 4) Insurance verification & review
- 5) Entity Review if required
- 6) Other requirements as necessary
- 7) Issue resolution
  - a) Communicate any problem issues to client.
  - b) Negotiate any necessary resolutions.
- 8) Move pipeline stage to Documentation.

G) Documentation

- 1) Draw docs.
- 2) Issue docs to title company.
- 3) Obtain executed docs from client.
- 4) Review for completeness.
- 5) Move pipeline stage to Funding/Closing.

H) Funding/Closing

- 1) Ensure availability of funds.
- 2) Prepare escrow instructions and wire transfer instructions (from Escrow Company.)
- 3) Final file review for completeness
- 4) Move pipeline stage to Servicing

I) Post Close/Servicing

- 1) Transaction entered into general ledger.
- 2) Loan documents assembled, copied and sent to servicing agent.
- 3) Confirm proper registration with servicing agent.
- 4) Enter loan and underwriting files into file storage system.
- 5) Close pipeline entry as Funded.

## **RISK FACTORS**

There are risks associated with investing in the Fund, the majority of which are not within the Fund's or the Manager's control. These risks include, among others, trends in the economy, particularly the real estate and capital markets, fluctuations in the interest rate environment, income tax laws, government regulations, and the availability of satisfactory investment opportunities. Prior to investing in the Fund, Investors should perform their own analysis of the investment opportunities and objectives presented and discuss investing in the Fund with their own advisors.

### **Risks Relating to an Investment in the Fund – General**

#### **Best Reasonable Efforts Offering; Diversification**

This Offering is being conducted on a "best reasonable efforts" basis by the Manager only. No guarantee can be given that all or any of the securities will be sold, or that sufficient proceeds will be available to conduct successful operations. Receipt of a relatively small amount of Investment Capital may reduce the ability of the Fund to spread investment risks through diversification of its portfolio.

#### **No Guarantee of Profitability**

There can be no assurance that cash flows will be sufficient to create net profits for the Fund even if the Manager believes in each Fund Asset's economic viability. Poor performance by a few of the Fund Assets could significantly affect the total returns to Investors. In addition, there is no guarantee that the Preferred Return will be paid on a regular basis, if at all. The Manager may choose not to make a quarterly distribution of the Preferred Return or Excess Distributable Cash if it believes it is in the best interest of the Fund to do so.

#### **No Guaranteed Return of Investor's Capital Contributions**

Investment in the Fund is speculative and involves a high degree of risk. There can be no guarantee that an Investor will realize a substantial return on the investment, or any return at all, or that the Investor will not lose the entire investment. For this reason, each prospective Investor should read this PPM and all documents in the applicable Subscription Booklets carefully and should consult with his, her, or its own legal counsel, accountant(s), or business advisor(s) prior to making any investment decision.

#### **Borrowing by the Company**

As described in this PPM, the Fund or any SPV(s) may choose from time to time to borrow funds pursuant to a Credit Facility. Although the purpose of leverage is to provide flexibility and additional liquidity options to the Fund, reduce required Member equity, as well as potentially increase the overall Member return, its use is inherently risky and can instead increase the risk of loss.

The interest rates at which the Fund is able to borrow funds will affect the Fund's operating results. While the use of borrowed funds will increase returns if the Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for the funds, the use of leverage will decrease returns if the Fund fails to earn as much on such incremental investments as it pays for the funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Fund than if the Fund was not so leveraged.

The use of leverage has the potential to magnify the gains or the loss on the Fund's investments and to make the Fund's returns more volatile.

The Fund may be unable to meet its obligations to a lender under a Credit Facility. If this occurs, the Fund may be liable for increased payments and penalties to the lender. The lender may also foreclose on any Fund assets in which it holds a security interest. As such, the Fund's inability to perform under a Credit Facility could have significant negative effects on the Fund, its assets, and ultimately the Members.

The Fund could be in a position where it must borrow funds in order to cover its operating expenses, overhead, or committed investments. In any of these events, it is uncertain whether debt financing will be available to the Fund on desirable terms, or at all. If the Fund is unable to secure debt financing in these circumstances, the Fund could end up in default of its obligations to third parties and incur significant penalties and other negative consequences. If the Fund is able to secure debt financing in these circumstances, the Fund could be highly leveraged and would be subject to all the risks associated with borrowing.

### **Risks of Credit Facility Being Unavailable, Called or Terminated**

The Fund has not yet obtained a Credit Facility, and its ability to do so is not certain. Even if the Fund is able to obtain a Credit Facility, that Credit Facility could later be called or terminated for a variety of possible reasons. The Credit Facility lender may get bought out, may cease such a business unit altogether, or may claim an event of default under the terms of the Credit Facility. In such an event, the Fund may need to either replace a substantial amount of money or the lender may collect all incoming cash and not allow for any distributions to Members or repayments to Note Holders until the default is cured or the Credit Facility is paid off.

### **Ability to Make Sufficient Number of Loans**

The Fund's business model depends on its ability to make loans in adequate amounts and with fees and interest rates high enough to generate income in excess of the Fund's debt service costs and other expenses. If demand for loans is not sufficient, if the Fund is not able to charge sufficient rates or fees on the loans due to market pressures or other reasons, the Fund's income from interest and fees may not be adequate for the Fund to achieve its anticipated net income and may result in net losses. This could have a material adverse impact on the Fund's financial condition and ability to make payments on the Notes or to provide a return to Investors.

### **Governmental Regulation**

The industry in which the Fund will become an active participant may be highly regulated at both state and federal levels, both with respect to its activities as an issuer of securities and its investing activities. Some of these regulations are discussed in greater detail below under "U.S. Securities Laws and Foreign Investors," "Compliance with Anti-Money Laundering Requirements," "Compliance with Dodd-Frank Act," "Usury Risk," "Risk that the Fund May Become Subject to the Provisions of the Investment Company Act of 1940," "Risk that the Manager May Become Subject to the Provisions of the Investment Advisers Act of 1940," "The Fund's Reliance on Exclusions from the Investment Company Act May Impact Certain Investment Decisions," and "Recent and Anticipated Legislative and Regulatory Activity." The Fund or the Fund Assets may be subject to governmental regulations in addition to those discussed in this PPM, and new regulations or regulatory agencies may develop that affect the Fund's operations and ability to generate revenue. The Fund will attempt to comply with all

applicable regulations affecting the markets in which it operates. However, such regulation may become overly burdensome and therefore may have a negative effect on the Fund's ability to perform as illustrated.

## **U. S. Securities Laws and Foreign Investors**

The offer and sale of the Units and Notes will not be registered under the Securities Act or the laws of any applicable state pursuant to an exemption from the registration requirements of the Securities Act, and the securities laws of certain states. Each Investor must furnish certain information to the Manager and represent, among other customary private placement representations, that it is acquiring its Units or Notes for investment purposes and not with a view towards resale or distribution. The acquisition of Units or Notes by each Investor also must be lawful under applicable state securities laws or the laws of the applicable foreign jurisdiction if the Investor is a non-U.S. person.

The Units and Notes have not been, and will not be, registered under the Securities Act. Accordingly, the United States securities laws impose certain restrictions upon the ability of a Member to transfer such Units, or a Note Holder to assign such Notes. Neither Units nor Notes may be offered, sold, transferred, or delivered, directly or indirectly, unless (i) such Units or Notes are registered under the Securities Act and any applicable state securities laws, or (ii) an exemption from registration under the Securities Act and any applicable state securities laws is available. Moreover, there will be no liquid, public market for the Units or Notes, and none is expected to develop.

Further, Units or Notes may not be offered, sold, transferred, assigned or delivered, directly or indirectly, to any "Unacceptable Investor." An Unacceptable Investor means any person who is known to be a:

(a) person or entity who is a "designated national," "specially designated national," "specially designated terrorist," "specially designated global terrorist," "foreign terrorist organization," or "blocked person" within the definitions set forth in the Foreign Assets Control Regulations of the United States Treasury Department, 31 C.F.R., Subtitle B, Chapter V, as amended;

(b) person acting on behalf of, or an entity owned or controlled by, any government against whom the United States maintains economic sanctions or embargoes under the Regulations of the United States Treasury Department, 31 C.F.R., Subtitle B, Chapter V, as amended--including, but not limited to--the "Government of Sudan," the "Government of Iran," the "Government of Cuba," the "Government of Syria," and the "Government of Burma"; or

(c) person or entity subject to additional restrictions imposed by the following statutes or Regulations and Executive Orders issued thereunder: the Trading with the Enemy Act, the Iraq Sanctions Act. Pub. L. 101-5 13, Title V, §§ 586 to 586J, 104 Stat. 2047, the National Emergencies Act, 50 U.S.C. §§ 1601 et seq., the Antiterrorism and Effective Death Penalty Act of 1996, Pub. L. 104 132, 110 Stat. 1214 1319, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., the United Nations Participation Act. 22 U.S.C. § 287c, the International Security and Development Cooperation Act, 22 U.S.C. § 2349aa-9, the Nuclear Proliferation Prevention Act of 1994, Pub. L. 103 236, 108 Stat. 507, the Foreign Narcotics Kingpin Designation Act, 21 U.S.C. §§\* 1901 et seq., the Iran and Libya Sanctions Act of 1996, Pub. L. 104 172, 110 Stat. 1541, the Cuban Democracy Act. 22 U.S.C. §§ 6001 et seq., the Cuban Liberty and Democratic Solidarity Act. 22 U.S.C. §§ 6021-91, and the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1997,

Pub. L. 104 208, 110 Stat. 3009 172, or any other law of similar import as to any non U.S. country, as each such Act or law has been or may be amended, adjusted, modified, or reviewed from time to time.

In the event of a registered public offering of Units in the U.S., the Fund would become subject to the reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under such circumstances, a Member that owns more than five percent (5%) of the Fund's outstanding Units may be obligated to make certain information filings with the Commission pursuant to the Exchange Act. Each prospective Member is advised to consult with its own legal advisor regarding the securities law consequences of ownership of Units if the Units become subject to the Exchange Act.

### **Compliance with Anti-Money Laundering Requirements**

The Fund may be subject to certain provisions of the USA PATRIOT Act of 2001 ("the Patriot Act"), including, but not limited to, Title III thereof, the International Money Laundering and Abatement and Anti-Terrorist Financing Act of 2001 ("Title III"), certain regulatory and legal requirements imposed or enforced by the Office of Foreign Assets Control ("OFAC") and other similar laws of the United States. In response to increased regulatory concerns with respect to the sources of the Fund's capital used in investments and other activities, the Manager may request that Investors provide additional documentation verifying, among other things, such Investor's identity and source of funds to be used to purchase Units or Notes. The Manager may decline to accept a subscription from an Investor if this information is not provided or on the basis of the information that is provided. Requests for documentation and additional information may be made at any time during which a Member holds Units or a Note Holder holds a Note or Notes. The Manager may be required to report this information, or report the failure to comply with such requests for information, to appropriate governmental authorities, in certain circumstances without informing a Member or Note Holder that such information has been reported. The Manager will take such steps as it determines are necessary to comply with applicable law, regulations, orders, directives, or special measures, including, but not limited to, those imposed or enforced by OFAC, the Patriot Act, and Title III. Governmental authorities are continuing to consider appropriate measures to implement anti-money laundering laws and at this point it is unclear what steps the Manager may be required to take; however, these steps may include prohibiting a Member from making further contributions of Capital to the Fund, or Note Holder from lending further monies to the Fund, depositing distributions or interest to which such Member or Note Holder would otherwise be entitled into an escrow account, or causing the withdrawal of such Investor from the Fund.

### **Compliance with Dodd-Frank Act and Similar Regulations**

The U.S., state, and foreign governments have taken or are considering extraordinary actions in an attempt to address real or perceived underlying causes of financial crisis and fraud and to prevent or mitigate the recurrence. These actions or other actions under consideration could result in unintended consequences or new regulatory requirements which may be difficult or costly to comply with. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act or the "Dodd-Frank Act," creates a Financial Services Oversight Council to identify emerging systemic risks and improve interagency communication, creates a Consumer Financial Protection Agency authorized to promulgate and enforce consumer protection regulations relating to financial products, which would affect both banks and non-bank finance companies, imposes a comprehensive new regulatory regime of financial markets, including derivatives and securitization markets and creates an Office of National Insurance within Treasury. While the bill has been signed into law, a number of provisions of the law remain to be implemented through the rulemaking process at various regulatory

agencies. It is unforeseeable what the final form of these rules will be when implemented by the respective agencies, but certain aspects of the new legislation, including, without limitation, the additional cost of higher deposit insurance and the costs of compliance with disclosure and reporting requirements and examinations by the new Consumer Financial Protection Agency, could have a significant impact on the Fund's business, financial condition, and results of operations. Additionally, it is unforeseeable whether there will be additional proposed laws or reforms that would affect the U.S. financial system or financial institutions, including the Fund, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect the Fund. For example, bankruptcy legislation could be enacted that would hinder the ability to foreclose promptly on defaulted mortgage loans or permit limited assignee liability for certain violations in the mortgage origination process, any or all of which could adversely affect the Fund's business or result in the Fund or the Manager being held responsible for violations in the mortgage loan origination process even where the Fund was not the originator of the loan.

Other laws, regulations, and programs at the federal, state, and local levels are under consideration that seek to address the economic climate and real estate and other markets and to impose new regulations on various participants in the financial system. It is unforeseeable the effect that these or other actions will have on the Fund's business, results of operations and financial condition. Further, the failure of these or other actions and the financial stability plan to stabilize the economy could harm the Fund's business, results of operations, and financial condition.

### **Conflicts of Interest Risks**

The Manager and its principals are subject to various conflicts of interest in managing the Fund.

The Fund will pay the Manager or Affiliates substantial fees that are not determined by arm's length negotiations. The Fund will pay a monthly Management Fee to the Manager of 1.5% (annualized) of the total Stated Value of the Fund's investments in Fund Assets as determined by the Manager on the last day of each month. Given that the Management Fee is calculated off the Stated Value, a potential incentive exists for the Manager to inflate the Stated Value in order to increase the Management Fee. The Fund will also pay a monthly Loan Servicing Fee to the Manager of 0.5% (annualized) of the unpaid balance of any loan obligations being serviced by the Fund or by a third party on the Fund's behalf as determined by the Manager on the last day of each month. The Manager may be incentivized to maintain a higher amount of unpaid loans so as to earn a higher Loan Servicing Fee.

In addition to the monthly Management Fee and Loan Servicing Fee, 50% of any loan origination fees or loan extension fees collected from Borrowers with respect to Mortgage Loans will be paid to the Manager or the Originator, with the other 50% going to the Fund. The Originator is an Affiliate of the Manager and, subject to the Manager's sole discretion, the Originator may be the sole originator of any Mortgage Loans made by the Fund. The Fund retains discretion to allow the Manager or the Originator to charge whatever amount in loan origination fees the Manager or the Originator desires. Any arrangement between the Fund and the Originator with respect to any Mortgage Loans originated by the Originator will not be the result of an arm's length negotiation and the same or substantially similar loan origination services may be available at a lesser expense to the Fund or the Borrowers of such Mortgage Loans from a third-party that is not an Affiliate of the Manager.

In addition to these fees, the Manager or Affiliates may charge the Fund additional fees or collect other amounts from the Fund that may create incentives to maximize those fees or

other amounts to the detriment of the Fund. For example, the Manager or Paul or Joel Worcester may also, in the Manager's sole discretion, charge the Fund a guarantee fee in the amount of up to 2% of a Credit Facility guaranteed by the Manager or such Person. And the Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund an acquisition fee in the amount 1% - 3% of the Stated Value of a Fund Asset acquired by the Fund, which acquisition fee shall at all times be commercially reasonable and never exceed 3% of the Stated Value of the Fund Asset. And the Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund a construction fee with respect any Fund Assets under construction. Finally, a variable portion of the EDC will be paid to the Manager as, if, and when distributed by the Fund, subject to the Clawback, as further described herein, which may incentivize the Manager to declare there is EDC available for distribution to the Members, even if such distribution is not in the best interests of the Fund.

Pursuant to the Intercreditor Agreement, the Note Holder appoints the Manager as the Representative of the Note Holders, which means the Manager has the authority, in such capacity, to sign all documents on behalf of the Note Holders and take any action necessary to protect the Note Holders' rights in the Security. The Note Holders will have very limited rights under the Intercreditor Agreement to direct the Representative to take any particular action on their behalf in the event of a default of the Fund's obligations under the Notes. As a result of this relationship, there may be conflicts in interest as between the Fund and the Note Holders on one hand, and the Manager on the other hand.

The Fund does not have its own officers, directors, or employees. The Manager supervises and controls the business affairs of the Fund, locates investment opportunities for the Fund, raises capital for the Fund, administers the financial affairs of the Fund, and renders certain other services, in each case subject to delegation to other firms or Affiliates of the Manager. The Manager, however, will devote only such time to the Fund's affairs as may be reasonably necessary to conduct its business. The Manager or its Affiliates and principals may compete with the business of the Fund or, may be a manager or investor of other companies (some of which may directly compete with the business of the Fund) and have other business interests of significance.

Although the Manager intends to utilize a team of advisors made up of real estate professionals and a CPA, there is no requirement that the Fund create or utilize a board or committee of unaffiliated Members or other advisors to review and approve transactions that may constitute a conflict of interest or any determination by the Manager of the value of any Fund Assets.

The Manager will be the representative of the Note Holders for purposes of actions on the Notes. Please see the sections of this PPM titled "RISK FACTORS -- Risks Specific to Note Holders" and "Conflicts of Interest."

### **Risk of Additional Investors**

The Fund is open-end, which means it does not have restrictions on the amount of Units or Notes the Fund will issue. If demand is high enough, the Fund may continue to issue Units or Notes no matter how many Investors there are. While this Offering is for up to a maximum amount of \$50,000,000, this amount may be increased at any time in the sole discretion of the Manager. Additional Units and Notes may be sold from time to time to the Manager, its Affiliates, or new Investors. As additional Units or Notes are issued, the increase in Units or Notes may reduce the amounts the Fund has available to make distributions to any one Investor, as distributions will need to be distributed amongst more Units or Notes. The Fund intends to only accept additional capital to the extent it will result in additional yields sufficient

to provide for the associated distributions, but the Fund cannot assure Investors that this will happen. In addition, subsequent sales may be at a Unit Price higher or lower than the price at which the Fund issues its initial Units, or on terms that are more or less favorable to the Note Holders than under the Note Schedule governing the initial Notes issued in the Offering. Since all Units and Notes are Pari Passu, however, Investors that paid different amounts may be entitled to similar returns.

### **Risks Specifically Related to the Fund's Real Estate Asset Based Business Model**

#### **General Real Estate Risks**

The Fund will be subject to the risks that generally relate to investing in real estate. Real estate historically has experienced significant fluctuations and cycles in performance that may result in reductions in the value of the Fund's real estate related investments. The performance and value of its investments once originated or acquired depends upon many factors beyond the Fund's control. The ultimate performance and value of the Fund's investments are subject to the varying degrees of risk generally incident to the ownership and operation of the properties in which the Fund invests and which collateralize or support its investments.

The ultimate performance and value of the Fund's investments will depend upon, in large part, the Borrower's or the Fund's ability to operate any given property so that it produces sufficient cash flows necessary to pay the interest and principal due to the Fund on its Mortgage Loans and investments or to recover the Fund's equity investment in the case of real estate owned by the Fund. Revenues and cash flows may be adversely affected by: changes in national or local economic conditions; changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics, including, but not limited to, changes in the supply of and demand for competing properties within a particular local property market; competition from other properties offering the same or similar services; changes in interest rates and the credit markets which may affect the ability to finance, and the value of, investments; the ongoing need for capital improvements, particularly in older building structures; changes in real estate tax rates and other operating expenses; changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes, hurricanes, and other natural disasters, acts of war, or terrorism, which may decrease the availability of or increase the cost of insurance or result in uninsured losses; changes in governmental rules and fiscal policies which may result in adverse tax consequences, unforeseen increases in operating expenses generally or increases in the cost of borrowing; decreases in consumer confidence; government taking investments by eminent domain; various uninsured or uninsurable risks; the bankruptcy or liquidation of major tenants; adverse changes in zoning laws; the impact of present or future environmental legislation and compliance with environmental laws; the impact of lawsuits which could cause the Fund to incur significant legal expenses and divert management's time and attention from the day-to-day operations of the Fund; and other factors that are beyond the Fund's control and the control of the property owners.

Any of the foregoing factors as well as others could adversely impact the return on and cash flows and values of the Fund's investments. In addition, property values can decline below their acquisition price or below their appraised, assessed, or perceived values after the acquisition. Appraisals, if obtained, are only the appraiser's opinion of the property values at a given point in time. Material declines in values could result in subsequent losses. The Fund's real estate based investments may be difficult to sell in an efficient and expeditious manner,

and there can be no assurance that there will be a ready resale market if or when the Fund finds it necessary or otherwise elects to sell such investments.

### **The Fund's Underwriting Standards and Procedures are More Lenient than Conventional Lenders**

The Fund will invest in Mortgage Loans with Borrowers who will not be required to meet the credit standards of conventional mortgage lenders, which is riskier than investing in loans made to Borrowers who are required to meet those higher credit standards.

Because the Manager approves Mortgage Loans more quickly than some other lenders or providers of capital, there may be a risk that the due diligence the Manager performs as part of its underwriting procedures would not reveal the need for additional precautions. If so, the interest rate the Fund charges and the Collateral the Fund requires may not protect the Fund adequately or generate adequate returns for the risk undertaken.

A Borrower's ability to pay a Mortgage Loan balance in a large lump sum may depend on its ability to obtain suitable refinancing or otherwise raise a substantial cash amount.

### **Risk of Default on Mortgage Loans / Nonperforming Mortgage Loans**

The Fund's investment strategy includes the acquisition or origination of Mortgage Loans which are subject to the risk of default. At the time of their acquisition, origination, or thereafter, Mortgage Loans may be nonperforming for a wide variety of reasons. Such nonperforming Mortgage Loans may require a substantial amount of workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of such Mortgage Loan, or the necessity of purchasing senior loans to protect the Fund's interest in its investment.

The Mortgage Loans may become uncollectible or subject to a reduced return due to any voluntary or involuntary bankruptcy, insolvency, or similar proceeding affecting any of the Fund's Borrowers or guarantors. It is possible that the Manager may find it necessary or desirable to foreclose on collateral securing one or more 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, without limitation, 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 may create a negative public image of the Collateral property and may result in disrupting ongoing leasing and management of the property. The Collateral value could also be negatively impacted if a defaulting Borrower were to damage the property, negligently or intentionally, while still in possession. Even if foreclosure can be avoided and a restructuring were successfully accomplished, a risk exists that, upon maturity of such Mortgage Loan, replacement "takeout" financing will not be available.

In certain circumstances, the Fund may lose priority of its liens to mechanic or materialmen's liens, by reason of the Borrower's wrongful acts or the priority allowed to certain tax liens. It is possible that the total amount recovered by the Fund upon default may be less than the total amount of its Mortgage Loan, with resultant losses to the Fund. In such circumstances, the Manager may pursue deficiency judgments against Borrowers, if available. Most, if not all, of the Fund's Mortgage Loans will be general obligations of the Borrower or principals of

the Borrower. Properties held as collateral and foreclosed upon may not generate sufficient income from operations to meet associated expenses of the Fund. In addition, operation of foreclosed properties may require the Fund to spend money for an extended period, and subsequent income and capital appreciation from the foreclosed properties to the Fund may be less than competing investments.

The Fund may be required to rely totally on its interest in the Collateral for repayment of a Mortgage Loan. The value of the Collateral may be affected by general or local economic conditions, neighborhood values, interest rates, real estate tax rates, and other operating expenses, the possibility of competitive overbuilding, and of the inability to obtain or maintain full occupancy of the properties, governmental rules and fiscal policies, acts of God or casualties for which insurance is not available or obtainable for commercially reasonable premiums, and other factors which are beyond the Fund's or the Manager's control.

The Fund may require transaction analysis reports for environmental screening or other environmental reports on the proposed Collateral, which reports may not reveal actual conditions and risks associated with the Collateral. The presence of hazardous substances on such Collateral may subject the Fund to substantial liability for the cost of removal or treatment, reduce the value of the Collateral or make it unmarketable. That cost may substantially exceed the value of the Collateral involved.

Further, under U.S. law, investments in properties or loans operating under bankruptcy laws are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of the Fund's original investment therein. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to its Members may be reclaimed if any such payments or distributions are later determined to have been fraudulent conveyances or preferential payments under applicable law.

### **The Fund May Have Difficulty Protecting its Rights as a Secured Lender**

The Fund believes that its Fund Asset documents will enable it to enforce commercial arrangements with Borrowers and other counterparties. However, the rights of Borrowers, counterparties, and other secured lenders may limit the Fund's practical realization of those benefits. For example:

- Judicial foreclosure is subject to the delays of protracted litigation. Although the Fund expects nonjudicial foreclosure to be generally quicker, the Fund's Collateral may deteriorate and decrease in value during any delay in foreclosing on it.
- The Borrower's right of redemption during foreclosure proceedings can deter the sale of the Collateral and can for practical purposes require the Fund to manage the property.
- The Fund will be making loans in different states, with varying foreclosure laws, procedures, and timelines. Depending on which state a Fund Asset is located, there may be more or less time, effort, and cost associated with foreclosing on Mortgage Loans.
- Unforeseen environmental hazards may subject the Fund to unexpected liability and procedural delays in exercising its rights.
- The rights of junior or senior secured parties in the same property can create procedural hurdles for the Fund when it forecloses on Collateral.
- The Fund may not be able to pursue deficiency judgments after it forecloses on Collateral.
- State and federal bankruptcy laws can prevent the Fund from pursuing any actions, regardless of the progress in any of these suits or proceedings.

- The courts, particularly the bankruptcy courts, may unilaterally alter the contractual terms of Fund Assets, including doing so to the detriment of the Fund.
- The Fund will also take a secured interest in assets other than real estate assets owned by various Borrowers. There is no assurance that such collateral will have value equal to or greater than the amount borrowed by such Borrowers. Neither the Fund nor any of its managers are experts in valuing collateral other than real estate and such, there is no way of assuring that the Fund is adequately secured in its loans. Throughout the period of its loans, the Fund may be undersecured.

Care is exercised upon creation of the legal documents at the time of origination or acquisition to ensure that as many bases as possible have been covered in the documents. However, in the event of default, it can be very difficult to predict with any certainty how courts will respond.

### **Risk of Lack of Knowledge in Distant Geographic Markets**

Although the Fund intends to focus its investments in locations with which the Manager is generally familiar, the Fund runs a risk of experiencing underwriting challenges or issues associated with a lack of familiarity in some markets. Each market has nuances and idiosyncrasies that affect values, marketability, desirability, and demand for individual Collateral that may not be easily understood from afar. While the Manager believes it can effectively mitigate these risks in a myriad of ways, there is no guarantee that investments in geographic markets outside the physical location of the Manager (or even inside this perceived boundary) will perform as expected.

### **Risks of Real Estate Ownership**

When the Fund acquires real estate, either directly or through foreclosure, deed in lieu of foreclosure, or otherwise, it has economic and liability risks as the owner, including but not limited to:

- Earning less income on disposition of the property than costs incurred in purchasing, improving it, and maintaining it;
- Keeping the property leased by tenants;
- Potential damage to the property by any tenants;
- Lack of availability or lapse in insurance coverage for the property;
- Controlling operating expenses;
- Coping with general and local market conditions;
- Possible exposure to environmental contamination remediation and cleanup costs, which in some cases could exceed the value of the property;
- Complying with changes in the laws and regulations pertaining to taxes, use, zoning and environmental protection; and
- Possible liability for injury to persons and property.

The Fund intends to secure insurance against hazards and contingencies to the extent it can obtain such insurance as an owner at a reasonable cost.

### **Risks of Participation or Fractional Interests in Fund Assets**

- Other owner(s) of a Participation Interest in such a Fund Asset may have different ideas, motivations, or desired outcomes than the Fund which may give rise to disputes in how to manage the Asset.

- There may be complications in disposing of Participation Interest that require additional time, money, and cooperation of parties who may be adverse at the time of maturity or disposition of the Asset, which may reduce the amount recovered by the Fund on such an Asset.
- The Manager and the Fund may not control or have influence over the transaction involving the Asset subject to the agreement governing the Participation Interest. Such a scenario would subject the Fund to the decisions of another party, whose interests may be adverse to those of the Fund.
- There may be regulations or laws that govern or influence a Participation Interest that are unknown at the time the investment is made, but which have a negative impact on the Asset at the time of maturity or disposition.

### **Risks of Investing in Subordinated (or Second Lien Position) Loans or Securities**

Some of the Fund's investments may consist of subordinated Mortgage Loans or securities. Such investments will be subordinated to the senior obligations of the property or issuer, either contractually, inherently due to the nature of equity securities, or both. In the event of default on the senior debt, the Fund as a holder of a subordinated loan may be at the risk of realizing a loss of up to all of its investment before the senior debt will suffer any loss. Consequently, greater credit risks are usually attached to subordinated investments than to a Borrower's first mortgage or other senior obligations. In addition, securities may not be protected by financial or other covenants and may have limited liquidity. Adverse changes in the Borrower's financial condition or general economic conditions may impair the ability of the Borrower to make payments on the subordinated securities and cause them to default more quickly with respect to such securities than with respect to the Borrower's senior obligations. In most cases, the Fund's management of its investments and its remedies with respect thereto, including the ability to foreclose on any collateral securing investments, will be subject to the rights of the more senior lenders and contractual intercreditor provisions. The Fund may also take a secured interest in assets other than real estate assets owned by various Borrowers. There is no assurance that such collateral will have value equal to or greater than the amount borrowed by such Borrowers. Neither the Fund nor any of its Managers are experts in valuing collateral other than real estate and such, there is no way of assuring that the Fund is adequately secured in its loans. Throughout the period of its loans, the Fund may be undersecured.

### **The Fund's Investments are Illiquid in Nature**

Although some of the Fund's investments may generate current income the Fund's investments will primarily be illiquid and may not be readily sold for fair value. The illiquidity commonly associated with real estate investments may limit the Fund's ability to vary its portfolio of investments in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale. In addition, illiquidity may result from the decline in value of a property comprising one of the Fund's investments. There can be no assurances that the fair market value of any property held by the Fund will not decrease in the future, leaving the Fund's investment relatively illiquid.

Furthermore, although the Manager expects that the Fund's investments will be disposed of prior to dissolution, the Fund may have to sell, distribute, or otherwise dispose of its investments at a disadvantageous time as a result of dissolution.

## **Other Real Estate Related Risks**

The Fund's real estate related investments will be subject to the varying degrees of risk and significant fluctuations in their value. The value of the Fund's investments depends upon the real property owner's ability to repair or rehabilitate the property as projected, operate the real property in a manner sufficient to meet its commitments, including debt service, and maintain or increase revenues in excess of operating expenses or, in the case of real property leased to a single lessee, the ability of the lessee to make rental payments. Revenues may be adversely affected by changes in national or international economic conditions; changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics; the financial condition of tenants, buyers, and sellers of properties; competition from other properties offering the same or similar services; changes in interest rates and in the availability, cost, and terms of mortgage funds; the impact of present or future environmental legislation and compliance with environmental laws; the ongoing need for capital improvements (particularly in older structures); changes in real estate tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; civil unrest; acts of God, including earthquakes, hurricanes, and other natural disasters; acts of war; acts of terrorism (any of which may result in uninsured losses); adverse changes in zoning laws; and other factors that are beyond the control of the real property owners and the Fund. In the event that any of the properties underlying the Fund's investments experience any of the foregoing events or occurrences, the ability of the real property owner to pay the interest and principal on any debt securities would be negatively impacted.

## **Further Deterioration in the Mortgage, Real Estate or Financial Markets or the Economy in General May Cause the Fund to Experience Losses**

The recent financial crisis in the U.S. and many non-U.S. economies, including the European sovereign debt and banking crises, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both within and outside the United States. The mortgage market has been adversely affected by changes in the lending landscape, and there is no assurance that these conditions will stabilize or that they will not worsen. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact conditions in a different country or region. In the U.S. and other jurisdictions where economic conditions are recovering, they are nevertheless perceived as still fragile. The Fund's investments will be materially affected by conditions in the mortgage market, the residential and commercial real estate markets and the financial markets and the economy generally. Delinquencies and losses with respect to residential and commercial real estate loans generally have increased in recent years and may continue to increase. Although the Fund's investments may be acquired at favorable prices that already reflect these circumstances, a further deterioration of the mortgage or real estate markets or the financial markets or the economy in general may nonetheless cause the Fund to experience losses related to its investments in real estate loans.

## **Interest Rate Risk**

The Fund's operating results depend to a large extent on its ability to generate a net profit, which is essentially the difference between the interest income earned on its loans to business and projects and the interest expense incurred in connection with its interest bearing liabilities, such as any Credit Facility and the Notes. Changes in the general level of interest rates can affect the Fund's ability to generate a net profit by affecting the spread between the Fund's interest earning assets (i.e., loans originated to business and projects) and interest

bearing liabilities, such as any Credit Facility and the Notes. This may be due to the disparate maturities when repricing the Fund's interest earning assets and interest bearing liabilities.

In addition to its effect on the Fund's interest rate spread, changes in the general level of interest rates also affect, among other things:

- the ability of the Fund to originate loans;
- the average life of the Fund's loans.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Fund.

### **Risk of Borrower Fraud**

Of paramount concern in originating and acquiring loans is the possibility of material misrepresentation or omission on the part of Borrowers. The quality of the Fund's investments in loans is subject to the accuracy of representations made by Borrowers. Misrepresentations or omissions by Borrowers may adversely affect what the Fund believes to be the value of the collateral underlying the loans or may adversely affect the ability of the Fund or its affiliates to perfect or effectuate a lien on the collateral securing the loans. The Fund will rely upon the accuracy and completeness of representations made by Borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. Accordingly, the Fund is subject to the risk that the systems used by the originators of mortgage loans to minimize Borrower misrepresentations or omissions are defective.

### **Usury Risk**

State and federal usury laws limit the interest that lenders are entitled to receive on loans. Statutes differ in their provision as to the consequences of a usurious loan. One group of statutes requires the lender to forfeit the interest above the applicable limit or imposes a specified penalty. Under this statutory scheme, the Borrower may have the recorded mortgage or deed of trust canceled upon paying its debt with lawful interest, or the lender may foreclose, but only for the debt plus lawful interest. Under a second, more severe type of statute, a violation of the usury law results in the invalidation of the transaction, thereby permitting the Borrower to have the recorded mortgage or deed of trust canceled without any payment and prohibiting the lender from foreclosing.

Usury laws in the states where the Fund's investments are located may limit the ability of the Fund to charge interest and create the risk that the Fund may not be able to fully realize their investment in their Mortgage Loans. For example, some states make it unlawful for a lender to charge or collect interest at a rate exceeding a statutorily prescribed interest rate per annum, unless the lender falls into one or more exclusion categories which exempts it from such prohibition. The Manager and the Fund may not be eligible for such exemptions under the relevant usury restrictions, and moreover, exemptions may not be available in all states in which the Fund intends to invest. In addition, if a license were required in a state in order to avail the Fund of an exemption, and the Manager loses its license in that state, the Manager and hence the Fund may no longer be eligible for that state's exemptions from usury law relying on such licensing, which may in turn limit the Fund's ability to generate revenues. While the Manager and the Fund intend to fully comply with any usury laws affecting the

Fund's investments, in the event the Fund does violate these laws, it may have a negative impact on the Fund's operations and ability to recover on its investments.

### **Digital Operations Risk**

WFM relies heavily on software, technology and the cloud with all documents secured and managed digitally. WFM utilizes software that allows it to track and manage its investments with confidence and accuracy. However, there are risks associated with technology. Defects in software products and errors or delays in processing of electronic transactions could result in:

- transaction or processing errors;
- diversion of technical and other resources from other efforts;
- loss of credibility with current or potential customers;
- harm to reputation; or
- exposure to liability claims

In addition, WFM relies on technologies supplied by third parties that may also contain undetected errors, viruses, or defects that could have a material adverse effect on the Fund's financial condition and results of operations.

### **Other General Risks of an Investment in the Fund**

#### **Newly Formed Entity**

The Fund is a newly formed entity with no operating history on which prospective Investors may base an evaluation of likely performance. To the extent that the Manager or the principals are responsible for the investment results of previous investment funds, those results are, in any event, past results and are not necessarily indicative of future results of the Fund's investments. There can be no assurance that any of the Fund's investments will perform as well as the past investments of the principals or that the Fund will achieve its investment goals or meet its target return for Investors.

#### **Unspecified Investments**

The Fund has not identified the particular investments it will make. Accordingly, an Investor must rely upon the ability of the Manager in making investments consistent with the Fund's investment objectives and policies. Although the principals have been successful in locating investments in the past, the Fund may be unable to find a sufficient number of attractive opportunities to invest its committed capital or meet its investment objectives. An Investor has no ability to control or determine the Fund's underwriting criteria, investment decisions, or other decisions with respect to the business of the Fund. Nor is there any requirement that the Fund create or utilize a board or committee of advisors to assist the Manager with respect to such decisions. Therefore, an Investor must completely rely on the discretion of the Manager and the Key Persons, and their respective employees and contractors, with respect to such decisions and the overall performance of the Fund.

Furthermore, there may be a period of time before the Manager fully invests the proceeds of this Offering and begins to make distributions or payments. The Manager will attempt to invest the proceeds as quickly as prudence and circumstances permit; however, no assurance can be given as to how quickly the proceeds will be invested. Consequently, the distributions you receive on your investment may be reduced pending the investment of the Offering proceeds in Fund Assets.

## **The Fund's Due Diligence May Not Reveal All Factors Affecting an Investment and May Not Reveal Weaknesses in Such Investments.**

There can be no assurance that the Manager's due diligence processes will uncover all relevant facts that would be material to an investment decision. Before making an investment, the Manager will assess the strength of the underlying properties and any other factors that they believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, the Manager will rely on the resources available to them and, in some cases, investigations by third parties.

## **No Minimum Offering Amount; Investments May be Less than Anticipated and the Fund's Investments May Not Be Diversified**

While the Fund is targeting a \$50,000,000 maximum offering amount, there is no minimum total amount the Fund must receive before accepting subscriptions, transferring Investor money to the Operating Account and acquiring Fund Assets. There is a substantial risk that the Fund will receive less subscriptions or Capital investments than it anticipates. In such event, the Fund's investment strategy will be adversely affected, the opportunity for diversification of investments will be materially decreased, and the returns on those investments likely will be reduced as a result of allocating Fund expenses among fewer investments. During the period when the Fund acquires its initial Fund Assets and until the time the Fund acquires a substantial amount of Fund Assets, the Fund will not be diversified and Fund Assets may consist of only a few Mortgage Loans. In addition, without broad diversification, the risk of loss to the Fund and its Investors is much greater.

## **Reliance on Management**

The Manager will make all Fund decisions, including Fund Asset selection. The Fund will be relying solely on the Manager's expertise and judgment. There is no requirement that the Fund create or utilize a board or committee of advisors to assist the Manager in making decisions with respect to the Fund. The Manager may resign at any time with one year's notice to the Members without liability to the Fund. The Members may only remove the Manager for Cause upon a vote of the Members holding at least 80% of the Ownership Interests. There can be no guaranty or assurance that a suitable replacement Manager will be identified and elected in the event of the resignation or removal of the Manager.

The Manager's principals are Paul and Joel Worcester. Each is considered an integral part of the Fund's investment strategy and the loss of either of them could adversely affect the Fund's performance. The Operating Agreement does not provide any protection for Investors in the event one or both of them are no longer providing services to the Fund. In such event, the Fund will continue operating and making new investments without their services.

## **Loss of Key Persons**

The Manager's principals are Paul and Joel Worcester. Each is considered an integral part of the Fund's investment strategy and operations, and the loss of either of them could adversely affect the Fund's performance. The Fund's Operating Agreement contains a provision that, upon the death or permanent disability of both Paul and Joel (the "Key Persons Event"), the Fund will cease making new investments for one year after the Key Persons Event. The Members shall have the right to appoint a replacement key person during the one year period. If no replacement key person is appointed by a vote of the Members holding a Majority within the one year after the Key Persons Event, the Fund shall permanently cease to make new investments and proceed with an orderly liquidation of its Assets. There can be no guaranty

or assurance that a suitable replacement key person will be identified and appointed before the end of the moratorium period.

### **Risk if Manager Withdraws or is Terminated**

The Fund presently only has one Manager. If the Manager, subject to its one year notice requirement, withdraws from the Fund, is terminated by the Members for Cause, or is terminated as Manager by dissolution or bankruptcy, it may be difficult or impossible for the Members of the Fund to locate a suitable replacement for the Manager. If it is unable to replace the Manager, the Fund would proceed with liquidating the Fund's Assets, which may or may not be able to be successfully executed.

### **Valuation Risk of Illiquid Investments**

Certain of the securities or assets the Fund will purchase or originate will not be actively traded. In the absence of market comparisons, the Fund will be required to resort to other pricing methodologies, including, for example, models based on assumptions regarding expected trends, historical trends following market conditions believed to be comparable to the then current market conditions and other factors believed at the time to be likely to influence the potential resale price of an Investment. Such methodologies may not prove to be accurate and the Fund's inability to accurately price securities or assets may adversely affect the return on the Fund's investments.

### **Risk of Litigation**

The Fund's investment activities may include activities that will subject it to the risks of becoming involved in litigation by third parties. The expense of defending claims against the Fund by third parties and paying any amounts pursuant to settlements or judgments would be borne by the Fund and would reduce net assets and could require the Members to return distributed capital and earnings to the Fund. The Manager and their Affiliates will be indemnified by the Fund in connection with such litigation, subject to certain conditions.

### **Lender Liability Risks Including Equitable Subordination**

In recent years, a number of judicial decisions in the U.S. have upheld the right of Borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the Borrower or has assumed a degree of control over the Borrower resulting in creation of a fiduciary duty owed to the Borrower or its other creditors or shareholders. Because of the nature of certain of the Fund's investments, the Fund could be subject to allegations of lender liability.

In addition, under common law principles that, in some cases, form the basis for lender liability claims, if a lending institution (a) intentionally takes an action that results in the undercapitalization of a Borrower to the detriment of other creditors of such Borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (d) uses its influence as an equity holder to dominate or control a Borrower to the detriment of the other creditors of such Borrower, a court applying bankruptcy laws may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." The Fund could be subject to claims from creditors of an obligor that the Fund's investments in debt obligations of such obligor should

be equitably subordinated. Alternatively, in bankruptcy a court may re-characterize the Fund's claims or restructure the debt using "cram down" provisions of the bankruptcy laws.

### **Recourse to the Fund's Assets**

The Fund's Assets, including any investments made or acquired by the Fund, may be required to be available to satisfy all liabilities and other obligations of the Fund in certain circumstances. Although the Fund may seek to structure investments through investment entities having limited liability, there can be no assurance that such efforts will always be successful or respected. If the Fund or one or more of its investments becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's Assets generally and not be limited to any particular Asset of the Fund, such as the Asset representing the Investment giving rise to the liability.

### **Risks Associated with a Changing Economic Environment**

As a result of the credit crisis and the occurrence of several high profile bankruptcies, recent government bailouts, bank failures, other negative corporate events and certain other recent events, the financial markets have been disrupted in general and the availability and cost of capital for the Fund and that of the Fund's competitors have been adversely affected. The achievement of the Fund's targeted rate of return is dependent, at least in part, upon the Fund's ability to access capital at rates and on terms the Manager determines to be acceptable. If the Fund's ability to access capital becomes significantly constrained, the Fund's financial condition and future investments may be significantly adversely affected.

### **Risks of Uninsured Losses**

The Fund will require that all Assets are insured against hazard. However, some events may be uninsurable or insurance coverage for such events may not be economically practicable. Losses from earthquakes, floods, or other weather phenomena, for example, that could occur may be uninsured and cause losses to the Fund. In addition, insurance may lapse without proper notice to the Manager and Assets may become temporarily uninsured and sustain damage during this period.

### **Risk of Repayment of Fund Assets and Redeployment of Cash**

There is a risk that when Fund Assets are paid off, there may not be sufficient quality opportunities to immediately redeploy the proceeds received from these payoffs into new Fund Assets. If the Fund is unable to locate new Assets in a timely manner, the excess cash may water down the overall yield to the Fund or the Manager may choose to repay Investors a portion or all of their Capital Account earlier than expected.

### **Competition for Fund Assets**

The business and arena in which the Fund is engaged is highly competitive, and the Fund and Manager compete with numerous established entities, some of which have more financial resources and experience in the business than the Fund or Manager. The Fund and Manager expect to encounter significant competition from other market participants including private lenders, private equity fund managers, real estate developers, pension funds, real estate investment trusts, other private parties, potential investors or homeowners, and other individuals or entities with objectives similar in whole or in part to those of the Fund. Any general increase in the availability of capital for such purposes may increase competition for Fund Assets and could reduce the yields they produce, including those of the Fund.

### **Risk of Lack of Geographical Diversity**

While the Fund intends to originate and acquire Assets in target markets nationwide, the Fund intends to primarily focus its efforts in Missouri and Kansas. If there is a concentration of Assets in certain regions, and if these regions suffer economic adversity, the value of the Collateral securing the Assets may suffer.

### **Risk of Loss of Funds in Money Market Account**

The Fund intends to place all its cash which is not otherwise invested in Fund Assets in Money Market Accounts. Each Money Market Account will consist of investments that are immediately liquid, and that, in the Manager's judgment, are sufficiently safe while producing a yield on the Fund's cash. The Manager intends to choose such investments which appear to have a very low probability of loss. Notwithstanding the foregoing, any investment inherently involves certain risks.

### **Absence of Registration Under Applicable Securities Laws**

This Offering is being made under certain federal and state securities laws exemptions. As such, the Units and Notes have not been registered under the Securities Act, or applicable state securities laws. Therefore, no regulatory authority has reviewed the terms of this Offering, including the nature and amounts of the compensation, the disclosure of risks and tax consequences, and the fairness of the terms of this Offering. Further, Investors do not have all of the protection afforded in registered or qualified offerings, and they must judge the adequacy of disclosure and the fairness of the terms of this Offering without the benefit of prior review by any regulatory authority.

Furthermore, the Fund may fail to comply with the requirements of the exemptions from registration on which it is relying. If so, the Members could rescind their purchase of Units, and Note Holders could rescind their purchase of Notes under applicable state and federal securities laws. If enough Members and Note Holders successfully sought rescission, the Fund and the Manager would face severe financial demands, which would adversely affect the Fund.

### **Absence of Regulatory Oversight**

While the Fund may be considered similar to an investment company, it is not presently, and does not propose in the future, to register as such under the Investment Company Act of 1940 or the laws of any other country or jurisdiction and, accordingly, the provisions of the Investment Company Act (which, among other matters, require investment companies to have a majority of disinterested directors, require securities held in custody to be individually segregated at all times from the securities of any other person and to be clearly marked to identify such securities as the property of such investment company, and regulate the relationship between the adviser and the investment company) will not be applicable to the Fund. In addition, the Manager is not registered as an investment adviser under the Investment Advisers Act of 1940 or as a Commodity Trading Advisor under the Commodity Exchange Act (or any similar law).

### **Risk That the Fund May Become Subject to the Provisions of the Investment Company Act of 1940.**

The Fund intends to operate so as to not be regulated as an investment company under the Investment Company Act (as defined herein) based upon certain definitions and exemptions thereunder. Companies that are subject to the Investment Company Act must register with

the SEC and become subject to various registration, governance, and reporting requirements. Compliance with such restrictions would limit the Fund's flexibility, and create additional financial and administrative burdens on the Fund. The Fund believes it can avoid these restrictions based on one or more exemptions provided for companies like the Fund. Specifically, the Fund expects to be exempted from registration under the Investment Company Act because the Fund will not make a public offering of the Units and the Fund will be primarily engaged in purchasing or acquiring mortgages and other liens on, and interests in, real estate as determined under exemptions from the Investment Company Act and rules issued thereunder. Accordingly, the Fund does not expect to be subject to the restrictive provisions of the Investment Company Act. However, the SEC has recently indicated that it may seek to narrow the exemption from registration for entities engaged in purchasing or acquiring mortgages and other liens on real estate. If the Fund fails to qualify for exemption from registration as an investment company, its ability to conduct its business as described herein will be compromised. Any such failure to qualify for such exemption would likely have a material adverse effect on the Fund.

### **Risk that the Manager May Become Subject to the Provisions of the Investment Advisers Act of 1940**

The Manager has not registered as an investment adviser under the Investment Advisers Act of 1940 (the "Investment Advisers Act") and intends to operate so as to not be required to register as an investment adviser with the SEC. Specifically, a provider of investment advice as to real estate, and not as to securities, should not be considered an "investment adviser" for purposes of the Investment Advisers Act, but the Mortgage Loans and other investments made by the Fund may be considered securities. Even if the Manager is deemed an investment adviser, investment advisers are not required to register under the Investment Advisers Act so long as they have less than \$100 million in assets under management, and the Manager expects to be further exempted from registration so long as the Manager has less than \$150 million in assets under management based on the fact that it is solely a manager of a real estate fund that is a qualifying private fund exempt from registration under the Investment Company Act. Even if the Manager is able to rely on the exemption for advisers solely to one or more private investments funds, it may nonetheless be required to file certain reports and other information with the SEC as an "exempt reporting adviser." This information will be publicly available by the SEC, and this information could reduce the competitive advantage of the General Partner and Fund. As an exempt reporting adviser, the Manager and Fund may be subject to SEC examination, record-keeping, compliance, and reporting obligations. If the Manager were deemed to be an investment adviser, and if or when the Manager exceeds that threshold, unless it is eligible for another exemption, it will be required to register under the Investment Advisers Act and will be subject to various restrictive provisions provided for therein. The Manager cannot determine at this time, what, if any, impact such registration and restrictions will have on its business or the business of the Fund.

Because the Manager views itself as being solely in the business of advising the Fund as to real estate, and not as to securities (although the Fund may form wholly owned special purpose vehicles through which to invest in real estate), the Manager does not intend to register under the Investment Advisers Act or any equivalent laws of one or more states that pertain to investment advice on securities ("State Advisers Acts") pursuant to available exemptions. Nevertheless, given that each state may adopt its own interpretations, the Manager could be required at some point to register with one or more State Advisers Acts. State Advisers Acts are similar to the Investment Advisers Act but generally apply to investment advisers that are not subject to the Investment Advisers Act because of the amount of assets under management or other exemptions from registration. The Manager intends to seek exemptions from such registration where possible. If the Manager does have

to register under one or more State Advisers Acts, such registration may create administrative and financial burdens on the Manager, and the Manager's operation of the Fund could be adversely affected to the extent that technical requirements or prohibitions were to prevent the Fund from operating as planned or add costs to the Fund such as certain custody related requirements. So long as the Manager is not an investment adviser, it does not owe the Fund a formal fiduciary duty as such, and the Fund does not benefit from the protections of the Advisers Act or State Advisers Acts.

### **The Fund's Reliance on Exclusions from the Investment Company Act May Impact Certain Investment Decisions**

To the extent that the Fund invests solely in real estate and not in securities, it should not be considered an investment company under the Investment Company Act. It is nevertheless conceivable that certain ways in which the Fund's investments are structured could be construed as securities for purposes of the Investment Company Act. The Investment Company Act excludes an issuer that follows a real estate program from the definition of an "investment company" if it is "primarily engaged" in, the origination or acquisition of mortgages and other liens on, or interests in, real estate. The Manager has not sought a no-action letter from the SEC to confirm that the Fund is eligible for this exemption. However, the Manager will rely on guidance issued by the SEC stating that so long as qualifying percentages of the Fund's assets consist of (1) mortgages and other liens on or interests in real estate; and (2) the remaining percentage of the Fund's assets consist primarily of real estate related assets, the Fund will remain exempt from the Investment Company Act registration requirements. Because the Fund is relying on an exemption that is dependent on the nature of the Fund's investment holdings, the Manager may need to consider such restrictions when assessing a potential investment for the Fund, and may decide not to pursue an asset because such asset would jeopardize the Fund's use of the exemption, as opposed to whether or not the asset would otherwise be a sound investment for the Fund.

### **Recent and Anticipated Legislative and Regulatory Activity**

The U.S. Congress, the SEC, and other regulators have taken, or represented that they may take, action to increase or otherwise modify the laws, rules, and regulations applicable to techniques and instruments in which the Fund may invest. New (or modified) laws, rules, and regulations may prevent, or significantly limit the ability of, the Manager from using certain such instruments or from engaging in such transactions. This may impair the ability of the Manager to carry out the Fund's investment strategy and may otherwise have an adverse impact on the Fund's returns. Compliance with such new or modified laws, rules, and regulations may also increase the Fund's expenses and therefore, may adversely affect the Fund's performance. It is not possible at this time to predict with certainty what, if any, impact the new or modified regulations will have on the Manager or the Fund, and it is possible that such impact could be adverse and material.

### **Investment by Benefit Plans**

In considering the acquisition of Units or Notes to be held as a portion of the assets of an "employee benefit plan" within the meaning of Section 3(3) of ERISA ("a Benefit Plan" or "Plan"), a Plan fiduciary, taking into account the facts and circumstances of such trust, should consider, among other things: (a) the effect of the "Plan Asset Regulations" (Labor Regulation Section 2510.3-101) including potential "prohibited transactions" under the Code and ERISA; (b) whether the investment satisfies the "exclusive purpose," "prudence," and "diversification" requirements of Sections 404(a)(1)(A),(B) and (C) of ERISA; (c) whether the investment is a permissible investment under the documents and instruments governing the plan as provided

in Section 404 (a)(I)(D) of ERISA; (d) the Plan may not be able to distribute Units to participants or beneficiaries in pay status because the Manager may withhold its consent; and (e) the fact that no market will exist in which the fiduciary can sell or otherwise dispose of the Units and the Fund has no history of operations. The prudence of a particular investment must be determined by the responsible fiduciary with respect to each employee benefit plan, taking into account the facts and circumstances of the investment.

## **ERISA Risks**

Any Investor that invests funds belonging to a qualified retirement plan or IRA should carefully review the tax risks provisions of this PPM as well as consult with their own tax advisors. The contents hereof are not to be construed as tax, legal, or investment advice.

**PROSPECTIVE BENEFIT PLAN INVESTORS ARE URGED TO CONSULT THEIR ERISA ADVISORS WITH RESPECT TO ERISA AND RELATED TAX MATTERS, AS WELL AS OTHER MATTERS AFFECTING THE BENEFIT PLAN'S INVESTMENT IN THE FUND. MOREOVER, MANY OF THE TAX ASPECTS OF THE OFFERING DISCUSSED HEREIN ARE APPLICABLE TO BENEFIT PLAN INVESTORS WHICH SHOULD ALSO BE DISCUSSED WITH QUALIFIED TAX COUNSEL BEFORE INVESTING IN THE FUND.**

## **Indemnification**

Pursuant to the Operating Agreement, the Fund will indemnify the Manager and its Affiliates, and any director, officer, agent, employee, or owner of the Manager and its Affiliates ("Covered Parties") from any losses, proceedings, investigations, claims, damages, liabilities, judgments, demands or expenses of any kind or nature whatsoever arising from any action taken or failure to act on behalf of the Fund within the scope of authority conferred on the Manager under the Operating Agreement, unless the act or omission was conduct not undertaken in good faith or constitutes gross negligence, fraud, or willful misconduct. If the Fund becomes obligated to make such payments, such indemnification costs would be paid from funds that would otherwise be available to distribute to Members or invest in additional Fund Assets. To the extent these indemnification provisions protect the Covered Parties at the cost of the Members in the Fund, a conflict of interest may exist. Members may be required to return certain amounts distributed to them to fund the indemnity obligations of the Fund.

## **Risks Specific to Members**

### **Risk that the Stated Value of Individual Fund Assets is Incorrectly Determined by the Manager**

The Manager will develop and utilize a consistent methodology to calculate the Stated Value of each individual Fund Asset on an ongoing basis, typically calculating this Stated Value for each Fund Asset at the time of origination or acquisition and at the end of each calendar quarter. The Manager will use methodologies that it deems reasonable based on various valuation practices commonly used in similar businesses in the industry including Broker Price Opinions, Comparative Market Analyses ("CMAs"), appraisals, comparable sales of other assets similar to Fund Assets, historical data and trends from actual sales, disposition or performance of Fund Assets, cash balances (in the case of cash Assets), and other such methodologies generally used and accepted in the market. This being said, the determination of Stated Value of any given Fund Asset may be highly subjective and may change continuously on an ongoing basis. There is no guarantee that any Stated Value as determined by the Manager of one or more of the Fund Assets is an accurate representation of the true current value of any Fund Asset and as such, the Unit Price may not fairly represent the then

current true value of the Units. Furthermore, the Manager may be subject to certain conflicts of interest in determining the Stated Value since such Stated Value will be the basis for the calculation of its management fees.

**Although the Manager will use methodologies that it believes are based on reasonable approaches to establishing value, it may modify, alter, or improve its methodologies in its sole discretion at any time during the life of the Fund. The Manager will make all determinations as to Stated Value of the Fund Assets in its sole discretion. There is a risk that the price charged for a Unit does not reflect its Value.**

The price at which the Fund will offer Units pursuant to the Offering will fluctuate based on the collective Stated Value (see immediately above) of all of the individual Fund Assets at the end of each calendar quarter. At the end of each quarter, the price of a Unit will be calculated by dividing the total Stated Value of all of the Assets by the total number of outstanding Units. Because the Stated Value of any given Fund Asset may not accurately reflect its actual value, the Unit Price may not accurately reflect the actual value each Unit at any given point. Hence, the price of a Unit could be adjusted by a premium or discount at any given point in time if the Assets were sold in a secondary market. Members should realize that the only measure of fair market value for a Unit is the price that would be determined under a ready market for the Units. Because no ready market for the Units exists or is anticipated, a perfectly accurate determination of the fair market value of the Units cannot be established.

#### **Units are not Liquid / Restrictions on Withdrawal of Member Capital**

Members will not be allowed to issue a request for a redemption of their Units (a "Redemption Request") during the first 48 months of the Member's investment (the "Lockup Period"). Notwithstanding the foregoing, Redemption Requests for reasons of financial hardship or emergency during the Lockup Period may be considered on a case by case basis subject to a penalty (the "Redemption Fee") equal to the amount of 5% of the then current Unit Price. The Manager shall have no obligation to consider any hardship Redemption Requests during the Lockup Period and shall be entitled to charge a higher or lower Redemption Fee. All Redemption Fees charged and collected will be considered income to the Fund.

After the Lockup Period, Members will have the right to request, with 12 months' notice, a Redemption as of the 48-month anniversary of their investment date (the "Anniversary Date"). The net result of these provisions is that, other than in the case of hardship Redemption Requests granted by the Manager in its sole discretion, the earliest any Member will be able to redeem their Units will be at the 48-month anniversary of the Member's investment. All Redemption Requests will be considered on a first come, first served basis. A Member shall be required to provide the Manager with a 12-month notice for any Redemption request (that is, notice will be required a minimum of 12 months prior to an Anniversary Date), unless approved by the Manager.

The Manager shall have no obligation to grant any particular Redemption Request and shall retain sole discretion as to whether or not to redeem any Unit. The Manager may redeem Membership Units Pari Passu at any time at the then current Unit Price in its sole discretion without penalty to the Manager or the Fund.

All of the above parameters notwithstanding, the Manager will endeavor to manage the Fund in such a manner as to be able to accommodate Redemption Requests at any time after the Lockup Period and as near the Anniversary Date upon which a request is made as consistently as possible.

Due to the above restrictions, including the Manager's ability to reject any redemption request in its discretion, even after the Lockup Period, there is no assurance that a Member will be permitted to redeem any of his, her or its Units at any particular time. As a result, a Member may be required to maintain his, her, or its investment indefinitely.

### **Restrictions on Transfer of Units**

The Units are restricted as to transfer under the state and federal tax and securities laws. In order to preserve the Fund's status as a limited liability company and prevent taxable status as a corporation, Members will not be free to sell or transfer Units without consent from the Manager, which the Manager may withhold in its discretion.

There is no market for the Units, public or private, and there is no likelihood that one will ever develop. Members must be prepared to hold their Units as a long-term investment and should not anticipate being permitted to transfer their Units. To comply with applicable tax and securities laws, the Manager may refuse advice to consent to a transfer or assignment of Units.

### **Rights of Members are Restricted**

No Member can exercise control over the Fund's affairs, which is entirely in the hands of the Manager. Voting by the Members is provided in a limited number of specific situations. However, Members have the right to:

- Remove the Manager for Cause by a vote of the holders of eighty percent (80%) of the Ownership Interest and, upon a vote of a majority of the Ownership Interest, elect a successor manager;
- If the Manager otherwise wishes to withdraw with appropriate notice to the Members, elect a successor manager by a vote of a majority of Ownership Interest; and
- Dissolve and terminate the Fund by a vote of the holders of eighty percent (80%) of the Ownership Interest.

### **Federal Income Tax Risks**

As with any investment that generates income or loss or distributes cash, an investment in the Fund has federal income tax risks. The significant tax risks are discussed in greater detail later in the "Tax Aspects of the Offering" section of this PPM. All Investors are encouraged to review the tax risk section with competent tax counsel. This discussion does not constitute tax advice and is not intended to substitute for tax planning.

Investors should understand the role of the Fund and the IRS concerning the tax issues involved in any investment in the Fund. The IRS may do any of the following:

- Examine the investment in the Fund at the Member level at any time, subject to applicable statute of limitations restrictions. Such an examination could result in adjustments of items that are both related and unrelated to the Fund.
- Review the federal income taxation rules involving the Fund and any investment in it, and issue revised interpretations of established concepts.
- Scrutinize the proper application of tax laws to the Fund, including a comprehensive audit of the Fund at any time. The Fund does not expect to fall under the reporting requirements for tax shelters, as the Fund does not have the avoidance or evasion of federal income tax as a significant purpose. If the Fund borrows significant sums and incurs significant losses, however, the Fund may be required to notify the IRS of its

status as a tax shelter. The effect of such action is generally unknown, but could result in increased IRS scrutiny of the Fund's taxes.

The Fund will:

- Defend any investigation by the IRS or any state agency that seeks to make adverse tax adjustments to the Fund. A dispute with the IRS or a state agency could also result in legal and accounting costs to individual Members directly (if the IRS audits a Member's tax return) and indirectly (if the IRS audits the Fund's tax returns);
- Retain an accounting firm to annually prepare a financial statement on the Fund's behalf, reviewing the Manager's treatment of all Excess Distributable Cash to the Members. At the discretion of the Manager, the Manager may at any time change accounting firms; and
- Not apply to the IRS for any ruling concerning the establishment or operation of the Fund.

### **Risk that Distributable Cash May Not Flow to Members**

The Fund's distribution model provides for the payment of a number of obligations prior to the Members receiving their Preferred Return and share of profits. Specifically, interest and principal on any Credit Facility, Fund Expenses, the Management Fee, Note Holder interest, and repayment of maturing Notes are all paid prior to the Preferred Return. If the Fund does not generate enough cash to satisfy all of these obligations, the Members will not receive any payments from the Fund.

### **Risk that Distributable Cash May Not be Sufficient to Satisfy Member's Tax Burden**

So long as the Fund is a limited liability company, it is intended to be taxed as a partnership, as described in greater detail below. Members in the Fund will therefore be allocated their share of the Fund's income, deduction, gain, and loss each year. Normally, an allocation of net income or gain of the Fund to a Member may cause the taxable income of such Member who is subject to state and federal income tax to increase. Consequently, an increase in a Member's taxable income will subject that Member to an increased income tax liability. Although the Fund intends to make distributions to Members in the amounts necessary to cover their tax liabilities associated with the Fund, there is no assurance that the Fund will have sufficient cash to make such distributions. If there is not sufficient cash to distribute, Members would have to satisfy their income tax liabilities associated with the Fund using their own cash.

### **Loss on Dissolution and Termination**

In the event of a dissolution or termination of the Fund, the proceeds realized from the liquidation of Assets, if any, will be distributed to the Members, but only after the satisfaction of claims of creditors, which include the Note Holders, liquidation and fund expenses, and accrued Management Fees. Accordingly, the ability of a Member to recover all or any portion of its investment in the Fund under such circumstances will depend on the amount of funds so realized and claims to be satisfied therefrom. There is no guarantee of a return of any of a Member's investment.

### **Loss of Limited Liability in Certain Cases**

In general, holders of units in a limited liability company are not liable for the debts and obligations of a limited liability company beyond the amount of the capital contributions they

have made or are required to make under their subscription agreement. Under the Delaware Limited Liability Company Act, members of a limited liability company would be held personally liable for any act, debt, obligation, or liability of a limited liability company to the extent that shareholders of a business corporation would be liable in similar circumstances. In this regard, the court may consider the factors and policies set forth in established case law with regard to piercing the entity veil, except that the failure to hold meetings may not be considered a factor tending to establish that the members have personal liability for any act, debt, obligation, or liability of the limited liability company if the certificate of formation and limited liability company agreement do not expressly require the holding of meetings of members and managers. The Manager intends to take action to avoid personal liability on its Members by complying with the Operating Agreement and applicable state-imposed formalities.

### **Debt Risk**

In this Offering we are offering Investors the opportunity to purchase Units or Notes. Priority will be given with respect to distributions of cash to the payment of interest on the Notes, and as applicable, principal as such Notes mature. If the Fund does not have sufficient cash available to make distributions with respect to the Units and pay its obligations with respect to the Notes, payments on the Note obligations will be given priority and may result in a decrease of the amount available for distribution to Members. If the Fund decides to use a bank Credit Facility, the priority of member Distributions will be even further subordinated and risk of nonpayment increased.

### **Units are Unsecured and Subordinate to Fund Liabilities and Expenses**

The Units are unsecured and subordinate to the prior payment in full of all liabilities and expenses of the Fund. As a result, upon the liquidation of the Fund assets will be available for distribution to the Members only if, after payment of all liabilities and expenses, including any amounts owed to any Credit Facility or under any Notes and any amount of Fund Expenses due but not yet paid, the Fund has any remaining amount of assets available for distribution to the Members. The Fund may not have sufficient remaining assets upon liquidation to pay the Preferred Return in full, return all invested but unreturned Capital to the Members, or make any distribution of net profits to the Members.

### **Limited Fiduciary Duties**

Conflicts may arise between the interests of the Manager and those of the Members. Although the Manager is accountable to the Fund as a fiduciary, the Fund's Operating Agreement grants the Manager broad discretion as to many matters and limits the Manager's fiduciary duties. By entering into the Operating Agreement, each Member acknowledges and consents to the exercise of such discretion, including when the Manager has a conflict of interest.

### **Risk of Investment Procedure for Units**

As described in this PPM, the Fund generally accepts subscriptions for Units on a quarterly basis. Any capital contribution made to the Fund by an Investor will initially be deposited in a Subscription Account, and the Investor's subscription will not be effective until the beginning of the next calendar quarter if the Manager elects to transfer the Investor's funds from the Subscription Account to the Operating Account. Investors will not earn any interest on funds held in the Subscription Account.

The Fund is permitted to borrow funds held in the Subscription Account, without the Investor's approval, at an interest rate of eight percent (8%) *per annum*, which the principal and interest will later be exchanged for Units when the Investor's subscription is accepted and becomes effective. Further, the Manager may elect, in its sole discretion, to keep Investor funds in the Subscription Account even when the beginning of a calendar quarter is reached, rather than accept the Investor's subscription by transferring the funds to the Operating Account. In this case, the Manager will notify the Investor of its decision and the Investor may elect, within ten days of receipt of the notice, to withdraw its funds from the Subscription Account. If the Investor does not withdraw its funds within the ten day timeframe, its subscription is irrevocable unless the same scenario occurs at the beginning of the next quarter.

This investment procedure poses a number of significant risks to Investors. There is no assurance that the Manager will accept the Investor's subscription, and funds may remain in the Subscription Account, where they will not accrue interest, for successive quarters if an Investor does not provide timely notice to withdraw its funds.

In addition, Investors do not have any control over whether the Fund borrows funds from the Subscription Account. Borrowed funds will accrue interest at eight percent (8%) *per annum* but will not be subject to any other terms or conditions and will not be secured. Also, if the Fund borrows a portion of an Investor's subscription and then exchanges the borrowed funds for Units, but rejects the rest of the Investor's subscription, the Investor may end up with a significantly smaller investment in the Fund than it anticipated.

### **Risks Specific to Note Holders**

#### **Risk of Failure to Notify Manager of Desire to Cash-Out at Maturity**

The Note Holder will have responsibility for notifying the Manager of its desire to cash-out its Note. No later than 60 days prior to the Maturity Date, a Note Holder must notify the Manager of Note Holder's desire to cash-out and receive payment of outstanding principal and interest upon the Maturity Date. If the Note Holder does not provide the 60 day Cash-Out Notice, the Note upon the Maturity Date will automatically extend at the Note rate less one percent (1%) until either (i) the Note Holder notifies the Fund that it wishes for the outstanding balance of the Note to be rolled over into a new Note, based on the then current Note Schedule, and such new Note is executed, or (ii) 60 days after the Note Holder provides a Cash-Out Notice. As such, a Note Holder has the burden of providing timely notice in order to receive payment under a Note on its Maturity Date; a Note Holder's failure to timely provide such notice will result in the Note remaining outstanding past its Maturity Date.

#### **Risk of 90-Day Continuance at Election of the Fund**

The Fund may not be able to repay the principal balance of a Note at its Maturity Date. The Fund will have the right, upon receipt of 60 days Cash-Out Notice, to continue to make interest payments on a monthly basis to the Note Holder at the existing Note Rate plus 1% for up to 90 days beyond the date on which the Note would be required to be repaid based on a Cash-Out Notice without such continuation constituting an event of default. Therefore, a Note Holder cannot rely on receiving payment under its note on the Maturity Date, even if it provides a timely Cash-Out Notice. A Note Holder should be prepared to endure this 90 day waiting period if necessary.

## **Notes are not Liquid**

An investment in the Notes is intended as an illiquid investment, and Notes are only repurchased or repayable prior to their Maturity Date upon the written consent of the Manager, which may be withheld in its sole discretion. An Early Repayment Fee in an amount equal to 5%, or other such amount as determined by the Manager, of the original principal balance of the Note, plus an amount equal to the interest rate differential between the original interest stated on the Note and the interest allocable to the shortened holding period, per the original executed Note Schedule, will be charged for any Notes repurchased early.

## **Restrictions on Transfer**

Note Holders will not be free to sell or transfer Notes without written consent from the Manager which may be withheld in its sole discretion. There is no market for the Notes, public or private, and there is no likelihood that one will ever develop. Note Holders must be prepared to hold their Notes to the Maturity Date, or beyond, and as a long-term investment. To comply with applicable tax and securities laws, the Manager, in its sole discretion, may refuse to consent to a transfer or assignment of Notes.

## **Pari Passu Intercreditor Interests**

The respective interests of each Note Holder in and to any payments made by the Fund in respect of the Notes, any Security, and any collections in connection with the foreclosure of such Security will be Pari Passu and no Note Holder will have any priority over the other; provided further, that any such payments, Security, or collections received by any Note Holder, other than such payments, Security, and collections that are received by all Note Holders on a pro rata basis, will be paid by such Note Holder to the Representative, to be held in trust for the benefit of all Note Holders.

## **Note Holder Representative**

The Representative will initially be the Manager, and the Manager will retain the right to select and appoint successor Representatives. The Representative will have the authority to sign all documents, and take any action necessary to protect each Note Holder's Pari Passu rights in the Security. This means the Representative will be the only party with the authority to take any enforcement action with respect to the Notes, foreclose or take any other action to realize upon the Notes or the Security, institute any action or proceeding to collect or enforce the Notes, commence or cause to be commenced any bankruptcy or similar proceeding against the Fund or commence or exercise any other right to remedy against the Fund. The Note Holder will execute the Intercreditor Agreement as part of the documents, prior to acceptance by the Manager. The Note Holders will have very limited rights under the Intercreditor Agreement to direct the Representative to take any particular action on their behalf in the event of a default of the Fund's obligations under the Notes.

The Manager has interests that differ from the Note Holders, including the Manager's interest in the Management Fee and its appropriate split of any EDC actually distributed. In addition, Affiliates of the Manager may recover fees for services. Because of these interests, the Manager may make decisions with respect to the Notes that differ from what a Note Holder would decide is in the Note Holder's best interest.

## **Note Holders Have No Right to Vote or to be Involved in Management**

Note Holders cannot exercise any control over the Fund's affairs and will not have any vote or influence over the Fund, its investment policies, or any of its operations. The Manager will exercise complete control over the Fund, subject to those limited items which the Members will be entitled to a vote as detailed in the Operating Agreement (provided, however, that the Note Holders will not be allowed to vote on any items that require approval of the Members under the Operating Agreement). The Manager has broad investment authority and may change its investment and underwriting policies (within the confines of its overall investment strategy) in its sole discretion. The Manager owes no fiduciary duties to the Note Holders. The Operating Agreement also provides that in its sole discretion, the Manager may withdraw from the Fund at any time with a one year notice, which may result in the Fund's dissolution if a replacement is not named within such period. Because the Note Holders will have no rights with respect to the Fund's management and affairs, Note Holders must rely entirely on the Manager to make the Fund profitable enough to be able to pay off amounts due under the Notes.

## **Power of Attorney**

Pursuant to the Intercreditor Agreement and the Subscription Agreement, the Note Holder appoints the Manager as the initial Representative, and any successor Representative, as determined by the Manager, as its true and lawful representative and attorney-in-fact in such Note Holder's name, place, and stead to make, execute, sign, acknowledge, file, and record all instruments, agreements, or documents as may be necessary or advisable to reflect the exercise by the Representative of any of the powers granted to it under the Subscription Agreement and the Intercreditor Agreement.

The Note Holder will further authorize the Representative to take any further action which the Representative will consider necessary or advisable in connection with any of the foregoing, giving the Representative full power and authority to do and perform each and every act or thing whatsoever requisite to be done in and about the foregoing as fully as such Note Holder might or could do if personally present. The Note Holder will be bound by any representation made by the Representative acting in good faith pursuant to such power of attorney, and the Note Holder will waive any and all defenses which may be available to contest, negate, or disaffirm the action of the Representative taken in good faith pursuant to such power of attorney.

## **Federal Income Tax Risks**

As with any investment that generates income or loss or distributes cash, an investment in Notes in the Fund has federal income tax risks. The significant tax risks are discussed in greater detail in the "Tax Aspects of the Offering" section of this PPM. All Investors are encouraged to review the tax risk section with competent tax counsel.

## **The Notes are Junior to Credit Facilities and Other Payments**

The Fund may enter into Credit Facilities that are senior in preference to the Notes. In addition, the Fund will pay Fund Expenses and the Management Fee prior to paying any interest or principal on the Notes. As such, Note Holders will not receive any payments on their notes until the Fund has satisfied any payments due under Credit Facilities, Fund Expenses, and the Management Fee. If the Fund does not have enough funds to satisfy these obligations, the Note Holders will not receive any payments on the Notes.

## **CONFLICTS OF INTEREST**

The Fund is subject to various conflicts of interest arising out of its relationship with the Manager. None of the agreements and arrangements between the Fund and the Manager, including those relating to compensation, resulted from arm's length negotiations. In addition, no assurances can be made that other conflicts of interest will not arise in the future. These conflicts of interest include, but are not limited to, the following:

### **Receipt of Management Fee and Loan Servicing Fee by the Manager**

The Manager will be paid the Management Fee, as a percentage of the Stated Value of the Fund's investments in Fund Assets, and the Loan Servicing Fee, as a percentage of the outstanding principal balance of any loans serviced by the Fund. Such fees are intended to compensate the Manager for its services and were not negotiated on an arm's length basis. Since absent the existence of such fees, Investors might receive a higher rate of return, the interests of the Manager and the Investors are adverse in this respect.

### **Receipt of Other Asset Level Fees by the Manager, Originator, or Affiliates**

In addition to the monthly Management Fee and Loan Servicing Fee, 50% of any loan origination fees or loan extension fees collected from Borrowers with respect to Mortgage Loans will be paid to the Manager or the Originator, with the other 50% going to the Fund. The Originator is an Affiliate of the Manager and, subject to the Manager's sole discretion, the Originator may be the sole originator of any Mortgage Loans made by the Fund. The Fund retains discretion to allow the Manager or the Originator to charge whatever amount in loan origination fees the Manager or the Originator desires. Any arrangement between the Fund and the Originator with respect to any Mortgage Loans originated by the Originator will not be the result of an arm's length negotiation and the same or substantially similar loan origination services may be available at a lesser expense to the Fund or the Borrowers of such Mortgage Loans from a third-party that is not an Affiliate of the Manager.

In addition to these fees, the Manager or Affiliates may charge the Fund additional fees or collect other amounts from the Fund that may create incentives to maximize those fees or other amounts to the detriment of the Fund. For example, the Manager or Paul or Joel Worcester may also, in the Manager's sole discretion, charge the Fund a guarantee fee in the amount of up to 2% of a Credit Facility guaranteed by the Manager or such Persons. And the Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund an acquisition fee in the amount 1% - 3% of the Stated Value of a Fund Asset acquired by the Fund, which acquisition fee shall at all times be commercially reasonable and never exceed 3% of the Stated Value of the Fund Asset. And finally, the Manager or an Affiliate may, in the Manager's sole discretion, charge the Fund a construction fee with respect any Fund Assets under construction. The Manager, Originator, or other Affiliates may also charge other market-based processing, underwriting, and inspection fees, which shall at all times be commercially reasonable to help cover expenses associated with processing, underwriting, and inspecting any Fund Assets originated, acquired or extended.

Since absent the existence of these fees, Investors might receive a higher rate of return, the interests of the Manager and the Investors are adverse in this respect.

### **Manager Additional Compensation (EDC Participation)**

In addition to the Management Fee and the other asset level fees described in this PPM, the Manager will receive its appropriate portion of any EDC actually distributed, subject to the

Clawback as further described herein. Since the Manager will receive substantial additional compensation once Members have received their Preferred Return, the Manager may have incentive to invest in riskier opportunities that it might believe would produce a greater return, a portion of which the Manager would keep. Since this potential additional return might result in additional risk and exposure, the interests of the Manager and Members may be adverse in this respect. The potential additional return may also encourage the Manager to cause the Fund to make distributions when it might otherwise reinvest in Fund Assets.

### **Competition by the Fund with Other Affiliated Companies**

The Manager, the Originator, their members, and their respective Affiliates may engage for their own accounts or for the accounts of others in other business ventures, including other public or private limited partnerships or limited liability companies, some of which may compete directly with the business of the Fund. Neither the Fund nor any holder of a Unit or Note issued by the Fund is entitled to an interest therein. The Manager, the Originator, their members, and their respective Affiliates may invest in real estate or other activities similar to those of the Fund or in competition with the Fund for their own accounts or the accounts of others, and expect to continue to do so.

The above notwithstanding, the Operating Agreement provides that, if the Manager receives an opportunity to invest in or manage or in any way benefit from an opportunity that is competitive with or similar to Assets in which the Fund ordinarily might invest (each an "Opportunity"), the Manager shall first consider in good faith the opportunity for the Fund prior to taking such opportunity for itself or on behalf of another Person. Factors the Manager may consider in determining whether an Opportunity is competitive include, but are not limited to, whether the Opportunity meets the Fund's underwriting criteria, whether it is consistent with the Investment Objectives of the Fund, and whether the Fund has sufficient financial resources at the time to accommodate the Opportunity.

The Manager and its members may be members or managers of other entities which have investment objectives that have some similarities to the Fund, which may cause the Manager's members to pursue investments that are competitive with those of the Fund. However, the decision as to the suitability of the investment by the Fund will be determined by the Manager in its sole discretion and will be based upon a review of the Fund's investment portfolio and upon factors including but not limited to such as property location, investment size, net income, the effect of the investment on diversification of the Fund's portfolio, and the amount of Fund capital then available for investment.

### **Other Investments**

Personnel of the Manager and their respective Affiliates involved in managing and executing responsibilities of the Manager may have investments in other funds or accounts and real estate interests sponsored by or affiliated with the Manager as well as investments sponsored by parties unaffiliated with the Manager or its Affiliates. The performance of and financial returns on such other investments may be at odds with those of the Fund.

### **Diverse Membership**

The Investors may include taxable and tax-exempt persons and entities and may include persons or entities organized in various jurisdictions, including outside of the United States. As a result, conflicts of interest may arise in connection with decisions made by the Manager that may be more beneficial for one type of Member than for another type of Member. In addition, the Manager may make investments for the Fund that may have a negative impact

on other investments made by certain Investors in separate transactions. In selecting investments appropriate for the Fund, the Manager will consider the investment objectives of the Fund as a whole, not the investment, tax or other objectives of any particular Member.

### **Broker/Dealer Representatives may receive Equity in the Manager or other Compensation**

In connection with this Offering, the Manager may employ one or more licensed broker/dealers or registered investment advisors ("RIAs") to locate interested Investors. Therefore, it may be in a broker/dealer or RIA's best interest to sell the Units or Notes, and that broker/dealer or RIA may potentially not have the Investors' best interests in mind. Additionally, if the broker/dealer or RIA were given an equity interest in the Manager, a portion of the Management Fee paid by the Fund to the Manager would ultimately be paid to the broker/dealer or RIA.

### **Lack of Separate Representation**

The documents relating to the Fund, including the Subscription Documents to be completed by each Investor, are detailed and often technical in nature. Legal counsel retained by the Manager to advise it on the formation of the Fund and the conduct of the Offering (the "Law Firm") represent the interests of the Manager only and will not represent the interests of any Investor. Accordingly, each Investor is urged to consult with its own legal counsel before investing in the Fund. The Law Firm does not investigate or verify the accuracy and completeness of information set forth in this PPM concerning the Fund, the Manager or any of their respective Affiliates, personnel and prior performance. In advising as to matters of law (including matters of law described in this PPM), the Law Firm has relied, and will rely, upon representations of fact made by the Manager and other Persons in this PPM and other documents. Such advice may be materially inaccurate or incomplete if any such representations are themselves inaccurate or incomplete, and the Law Firm generally will not undertake independent investigation with regard to such representations.

### **Manager as Member and Note Holder**

The Manager may be a Member or a Note Holder of the Fund and from time to time may invest additional amounts in the Fund. The Manager determines the Stated Asset Value, Unit Price, and Note Schedule upon which the Manager and all others will make their investment decisions. Any further investment by the Manager will be made according to the then prevailing Unit Price and Note Schedule and otherwise be in such form and in such amount as determined by the Manager in its sole discretion, without notice or approval of the other Members or Note Holders. The Manager may also determine to have the Fund accept its investment while rejecting the investments of others (though it does not intend to do so). As additional Units or Notes are issued, the increase in Units or Notes may reduce the amounts the Fund has available to make distributions to other Investors, as distributions will need to be distributed amongst more Units or Notes. In addition, the Manager will be eligible to have the same rights to request the Fund to redeem its Units or Notes as any other Investor. Any such Redemption may reduce the amount of funds available for the redemption or repayment of other Investors interests.

Furthermore, while the Manager in its capacity as Manager or Representative is obligated to consider the interests of the Members and Note Holders as a whole, the Manager may vote in its capacity as a Member or Note Holder without considering the interests of the other Note Holders. The interests of the Manager in its capacity as a Member or Note Holder may be adverse to the interests of other Members or Note Holders.

## **Manager as Manager and Representative**

The Representative will initially be the Manager, and the Manager will retain the right to select and appoint successor Representatives. The Representative will have the authority to sign all documents and take any action necessary to protect each Note Holder's Pari Passu rights in the Security. This means the Representative will be the only party with the authority to take any enforcement action with respect to the Notes, foreclose or take any other action to realize upon the Note or the Security, institute any action or proceeding to collect or enforce the Notes, commence or cause to be commenced any bankruptcy or similar proceeding against the Fund, or commence or exercise any other right to remedy against the Fund. The Note Holders will have very limited rights under the Intercreditor Agreement to direct the Representative to take any particular action on their behalf in the event of a default of the Fund's obligations under the Notes. To the extent that the Manager is also the party with the authority to take enforcement action against the Fund in the event of a default under the Notes, the interests of the Manager and Representative may not be consistent with the interests of the Note Holders.

## **Indemnification**

Pursuant to the Operating Agreement, the Fund will indemnify the Manager and its Affiliates, and any director, officer, agent, employee, or owner of the Manager and its Affiliates ("Covered Parties") from any losses, proceedings, investigations, claims, damages, liabilities, judgments, demands or expenses of any kind or nature whatsoever arising from any action taken or failure to act on behalf of the Fund within the scope of authority conferred on the Manager under the Operating Agreement, unless the act or omission was conduct not undertaken in good faith or constitutes gross negligence, fraud, or willful misconduct. If the Fund becomes obligated to make such payments, such indemnification costs would be paid from funds that would otherwise be available to distribute to Members or invest in additional Fund Assets. To the extent these indemnification provisions protect the Covered Parties at the cost of the Members in the Fund, a conflict of interest may exist.

## **TAX ASPECTS OF THE OFFERING**

### **Tax Aspects – Note Holders**

The following is a general discussion of certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by initial holders of the Notes who purchase the Notes at their issue price and hold the Notes as capital assets within the meaning of Section 1221 of the Code. This discussion does not address all of the tax considerations that may be relevant to holders in light of their particular circumstances or to holders subject to special rules under U.S. federal income tax laws, such as certain financial institutions, banks, insurance companies, regulated investment companies, real estate investment trusts, dealers in securities, traders in securities, tax-exempt entities, certain former citizens or residents of the U.S., holders who hold the Notes as part of a “straddle,” “hedging,” “conversion,” or other integrated transaction, holders who mark their securities to market for U.S. federal income tax purposes or holders whose functional currency is not the U.S. dollar. This discussion does not address the effect of any state, local, or foreign tax laws or any U.S. federal estate, gift, or alternative minimum tax considerations. In addition, this discussion does not address the effect of any U.S. federal, state, local, or foreign tax laws to any Non-U.S. Holders.

The following discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect.

While the Manager has set forth in this PPM what it believes to be the material tax risks associated with an investment in the Notes, Note Holders should not interpret references to certain specific tax issues as a representation that the matters referred to are the only tax risks involved in this investment, nor should Note Holders assume that the reference to tax risks means that the magnitude of the risks is equal.

Nothing in this PPM is intended as a substitute for individual tax planning. It is impractical to discuss all tax consequences of federal, state, and local law of an investment. The tax consequences of investing in the Notes may differ materially, depending on whether the Note Holder is an individual taxpayer, corporation, trust, partnership, or tax-exempt identity.

**PROSPECTIVE NOTE HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THESE AND OTHER TAX MATTERS.**

### **Certain U.S. Federal Income Tax Consequences to U.S. Holders**

The following discussion applies to the Note Holder only if the Note Holder is a U.S. Holder of Notes. If an entity treated as a partnership for U.S. federal income tax purposes holds the Notes, the tax treatment of such partnership and its partners will generally depend upon the status and activities of the partnership and its partners. A Note Holder that is treated as a partnership for U.S. federal income tax purposes should consult its own tax adviser regarding the U.S. federal income tax considerations to it and its partners of the purchase, ownership and disposition of the Notes.

### **Sale, Exchange, or Repayment of Notes**

Upon the sale, exchange, or repayment of the Notes, Note Holders will recognize gain or loss equal to the difference, if any, between the amounts realized upon the sale, exchange, or retirement and the Note Holder’s adjusted tax basis in the Notes. The Note Holder’s adjusted

tax basis in the Notes generally will be the Note Holder's cost for the Notes, less any principal payments received.

Any gain or loss recognized on the sale, exchange, or retirement of the Notes generally will be capital gain or loss. Such gain or loss will be long-term capital gain or loss if the Notes have been held for more than 12 months prior to the sale, exchange or retirement. The maximum individual income tax rate for long-term capital gains currently is 20% plus the 3.8% tax on net investment income. The deductibility of capital losses is subject to limitation. To the extent that the amount realized represents accrued but unpaid interest, that amount must be taken into account as interest income if it was not previously included in the Note Holder's income. Interest income generally is taxed at ordinary income rates.

### **Backup Withholding and Information Reporting**

Interest paid or accrued on the Notes and the proceeds received from a sale, exchange, or other disposition (including retirement at the Maturity Date or early repayment of the Notes) will generally be subject to information reporting if the Note Holder is not an exempt recipient (such as a domestic corporation) and may also be subject to backup withholding at the rates specified in the Code if the Note Holder fails to provide certain identifying information (such as an accurate taxpayer identification number on IRS Form W-9 if the Note Holder is a U.S. Holder) and meet certain other conditions.

### **State and Local Taxation**

In addition to the United States federal income tax considerations described above, prospective Note Holders should consider the potential state and local tax consequences of an investment in the Notes. In addition to being taxed and subject to tax filing obligations in its own state or locality of residence or domicile, a Note Holder may be subject to tax filing obligations and income, franchise, and other taxes in jurisdictions in which the Fund conducts its activities. Although no assurances can be provided, the Fund intends to conduct its activities in such a manner that it will not cause Note Holders who are not otherwise subject to taxation in states other than their state of residence, to be taxed and subject to tax filing obligations in other states solely as a result of an investment in the Notes. The Fund itself may also become subject to tax in certain jurisdictions. This discussion does not purport to discuss the state and local tax consequences of an investment in the Notes.

### **Tax Aspects – Members**

Set forth below is a general discussion, of certain material federal income tax consequences relating to an investment in the Units. This summary does not attempt to present all aspects of the federal income tax laws or any state, local, or foreign laws that may affect an investment in the Fund, nor is it intended to be applicable to all Investors, some of which, such as Investors subject to the alternative minimum tax, financial institutions, dealers, and other Investors that do not hold their Units as capital assets, insurance companies, and foreign persons or entities, may be subject to special rules. No ruling has been or will be requested from the IRS and no assurance can be given that the IRS will agree with the tax consequences described in this summary. Each prospective Member should consult with its own tax adviser in order to fully understand the federal, state, local, and foreign income tax consequences of an investment in the Fund. This summary does not constitute tax advice, and is not intended to substitute for tax planning.

As used herein, the term "U.S. Member" means a beneficial owner of a Membership Unit in the Fund which is a "U.S. Person." A "U.S. Person" is for federal income tax purposes: (i) an

individual who is a citizen of the United States or a resident of the United States; (ii) a corporation (or other entity taxable as a corporation) that is created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (iii) an estate the income of which is subject to federal income taxation regardless of its source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) has a valid election in effect under the applicable regulations to be treated as a U.S. Person. A "Non-U.S. Member" is a beneficial owner of a Unit that is not a U.S. Member.

A partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holding a Unit should consult its own tax advisor because the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. This discussion does not constitute tax advice and is not intended to substitute for tax planning.

### **Fund Tax Status**

It is intended that the Fund will be classified and reported as a partnership for federal income tax purposes, and that the Fund will not be treated as a "publicly traded partnership." An entity that would otherwise be classified as a partnership for U.S. federal income tax purposes may nonetheless be taxable as a corporation if it is a "publicly traded partnership," unless the partnership meets certain passive income tests under Section 7704 of the Internal Revenue Code of 1986, as amended (the "Code"). The Manager intends to operate the Fund so it will not be treated as a publicly traded partnership. These measures will include the Manager having the absolute right to deny transfers of Membership Units unless a safe harbor is clearly available, determined in the Manager's sole discretion, permitting such transfer. In addition, the Fund intends to obtain and rely on appropriate representations and undertakings from each Member so that the Fund is not treated as a publicly traded partnership.

The following discussion assumes that the Fund will be treated as a partnership for federal income tax purposes.

The Manager may, in its sole discretion, establish parallel, feeder, or alternative entities such as partnerships, corporate subsidiaries, or other investment vehicles to address the tax, regulatory, or other concerns of certain prospective Investors. In addition, the Manager may also, in its sole discretion, reorganize the Fund into a master-feeder structure. Any person reviewing this discussion should seek advice based on such person's particular circumstances from an independent tax advisor.

### **Taxation of U.S. Members**

As a partnership, the Fund generally will not be subject to federal income tax. Instead, for federal income tax purposes, each U.S. Member will be required to take into account its distributive share of all items of the Fund's income, gain, loss, deduction, and credit for the Fund's taxable year ending within or with the U.S. Member's taxable year. Each item generally will have the same character and source (either U.S. or foreign) as though the U.S. Member had realized the item directly.

A U.S. Member will be required to include in income for federal income tax purposes its share of the Fund's income or gain regardless of whether the Fund makes any distribution to such U.S. Member. Therefore, each U.S. Member should be aware that the tax liability associated with an equity interest in the Fund may exceed (perhaps to a substantial extent) the cash

distributed to that U.S. Member during a taxable year, and a U.S. Member may have to utilize cash from other sources to satisfy a tax liability attributable to a Unit.

The Operating Agreement provides the Manager will allocate any item of Fund income, gain, loss, deduction, or credit in a manner that reflects the difference between a U.S. Member's capital account balance and the amount such U.S. Member has received or is entitled to receive from the Company whether in the current year or in future years. Under Section 704 of the Code, a U.S. Member's distributive share of any item of Fund income, gain, loss, deduction, or credit of the Fund will be governed by the Operating Agreement unless the allocation provided by the Operating Agreement does not have substantial economic effect or is not otherwise in accordance with the Members' interests in the Fund.

If a U.S. Member withdraws all or part of its investment in the Fund during a fiscal year, the Manager, in its exclusive discretion, may elect to allocate taxable income or tax loss first to such U.S. Member's capital account in that fiscal year, to the extent that such U.S. Member's investment in the Fund differs from such U.S. Member's adjusted tax basis in such Unit immediately prior to such withdrawal, or tax loss first to a fully withdrawing U.S. Member to the extent such U.S. Member's adjusted tax basis in such Unit exceeds such U.S. Member's capital account balance.

The Operating Agreement allows the Manager to allocate to a withdrawing U.S. Member income, expense, gain, loss, or deduction equal to the difference between that U.S. Member's capital account balance at the time of the withdrawal and the adjusted tax basis for its Interest at that time. To the extent such special allocations are made, the withdrawing U.S. Member may be allocated income, expense, gain, or loss from the Fund's activities in the year in which the withdrawal is effective, rather than recognizing that amount as part of its capital gain or loss in the year in which the payment for the withdrawal is received. This could result in some acceleration of taxable income if the withdrawal is close to the end of a taxable year, and could also result in the withdrawing U.S. Member being taxed at ordinary income rates on some or all of the amounts that would otherwise be taxed at favorable long-term capital gain rates. Furthermore, the IRS may challenge such an allocation as being without "substantial economic effect" and not in accordance with U.S. Members' Units. If such a challenge were successful, the remaining U.S. Members could be considered to have underreported income and gains for the year for which the allocation was made and the Fund and those U.S. Members could be subject to additional taxes as well as interest and penalties.

Although the allocation provisions of the Operating Agreement will not satisfy all the safe harbor requirements provided for by applicable Treasury Regulations, the Manager believes that such provisions should govern the allocation of Fund items to the U.S. Members because such provisions are consistent with the U.S. Members' respective interests in the Fund (taking into account all facts and circumstances). Notwithstanding the foregoing, no assurance can be given that the allocations will be upheld if challenged by the IRS. A successful challenge by the IRS could result in a U.S. Member recognizing a larger amount of gain or income or smaller amount of loss or deduction than it would have recognized under the allocation provisions in the Operating Agreement.

### **Nature of Income Derived by the Fund**

The Fund expects generally to recognize ordinary income in connection with its transactions but may also recognize either or both long-term and short-term capital gains. It is also possible that the Fund will recognize capital losses for federal income tax purposes, the deductibility of which may be limited.

The Fund may invest (i) in certain securities, such as original issue discount obligations, preferred stock with redemption or repayment premiums, certain foreign corporations, or equity in other entities treated as transparent for tax purposes, or (ii) engage in transactions such as debt restructurings or foreclosures that could cause the Fund, and consequently the Investors, to recognize taxable income without receiving any cash. Thus, taxable income allocated to a U.S. Member may exceed cash distributions, if any, made to such U.S. Member, in which case such U.S. Member would have to satisfy tax liabilities arising from an investment in the Fund from its own funds.

### **Original Issue Discount**

Certain loans acquired by the Fund may be treated as having "original issue discount" ("OID") for U.S. federal income tax purposes. A loan will be treated as having OID if the loan's stated redemption price at maturity exceeds its issue price by more than a statutory *de minimis* amount. In the case of any loan treated as having OID, the holder would be required to accrue a portion of the OID daily as interest income even though receipt of the corresponding cash payment is deferred and regardless of the Member's method of accounting.

### **Market Discount Loans**

The Fund may acquire certain loans at a "market discount" ("Market Discount Loans"). A loan acquired after its original issuance will generally be treated as a Market Discount Loan if the stated redemption price of the loan at maturity (or its adjusted issue price in the case of an obligation that was issued with OID) exceeds the holder's basis for the loan immediately after its acquisition by more than a statutory *de minimis* amount. In general, any gain recognized on the maturity or disposition of a Market Discount Loan will be treated as ordinary income to the extent that such gain does not exceed the accrued market discount on such Market Discount Loan. Alternatively, the holder may elect to ratably include market discount in income during the period that such holder holds the Market Discount Loan. Market discount accrues on a straight-line basis unless the holder elects to accrue such discount on a constant yield to maturity basis. If the Fund does not elect to include market discount in income currently, it generally will be required to defer deductions for interest on borrowings allocable to such Market Discount Loan in an amount not exceeding the accrued market discount on such Market Discount Loan until the maturity or disposition of such Market Discount Loan.

Upon the sale of property by the Fund, the Fund will recognize a gain or loss in an amount equal to the difference between the amount realized and the Fund's tax basis in the property sold. The gains or losses realized by the Fund from the sale or other disposition of property generally would be treated as capital gains or losses, subject to certain rules some of which are discussed above. However, if the Fund (or an entity in which the Fund is a partner, member, or other type of investor) were treated as a "dealer" with respect to all or part of its property (meaning that it was viewed as holding such property for sale to customers in the ordinary course of its business), then all the gains from such property would be treated as ordinary income. Further, if a Fund Asset is sold in less than one year from the date of acquisition, then gains from such property would likely be treated as short-term capital gains and taxed at ordinary income rates. Long-term capital gains, other than certain types of depreciation recapture, are taxable at a reduced rate for individuals (20% plus the 3.8% tax on unearned income described below).

U.S. Members who are individuals, estates, or certain trusts will be subject to a 3.8% Medicare tax on certain investment income such as interest, dividends, and rents from certain passive activities. Prospective Investors should consult their tax advisors regarding the possible applicability of the Medicare tax to income and gain in respect of an investment in the Fund.

## **Basis**

Each U.S. Member will (subject to certain limits as discussed below) be entitled to deduct its allocable share of the Fund's losses to the extent of its tax basis in its interest at the end of the tax year of the Fund in which such losses are recognized. A U.S. Member's tax basis in its interest is, in general, equal to the amount of cash such U.S. Member has contributed to the Fund, increased by the U.S. Member's proportionate share of income and liabilities of the Fund, and decreased by the U.S. Member's proportionate share of cash distributions, losses, and reductions in such liabilities.

If cash (including in certain circumstances "marketable securities") distributed to a U.S. Member in any year, including for this purpose any reduction in that U.S. Member's share of the liabilities of the Fund, exceeds that U.S. Member's share of the taxable income of the Fund for that year, the excess will constitute a return of capital and will be applied to reduce the tax basis of that U.S. Member's interest. Any distribution in excess of such basis will result in taxable gain to the U.S. Member. In general, distributions (other than liquidating distributions) of property other than cash and, in certain circumstances, "marketable securities," will reduce the basis (but not below zero) of a U.S. Member's interest by the amount of the Fund's basis in such property immediately before its distribution but will not result in the realization of taxable income to the U.S. Member.

## **Limits on Deductions for Losses and Expenses**

In the case of U.S. Members that are individuals, estates, trusts, or certain types of corporations, the ability to utilize any tax losses generated by the Fund may be limited under the "at risk" limitation in Section 465 of the Code, the passive activity loss limitation in Section 469 of the Code or other provisions of the Code. Furthermore, such U.S. Member may be subject to limitations on the ability to utilize certain specific items of deduction attributable to the investment activities of the Fund (as opposed to its activities that represent a trade or business for federal income tax purposes) under Section 163(d) of the Code, the 2% floor on miscellaneous itemized deductions (including investment expenses) in Section 67 of the Code or other provisions of the Code.

## **Possible Audit of Information Return**

A limited liability company generally is not liable for the payment of federal income tax, but is required to file a federal income tax return on Form 1065 each year. Any such return may be audited, and any such audit may result in adjustments. Specifically, some of the deductions, claims, income reported, or positions taken by the Fund may be challenged by the IRS. Any audit adjustment made by the IRS could adversely affect the Members, and even if no such adjustment were ultimately sustained, the Members would, directly or indirectly, bear the expense of contesting such adjustments.

## **Sale or Exchange of U.S. Member Interests**

Except to the extent the Fund holds appreciated inventory or unrealized receivables, a U.S. Member that sells or otherwise disposes of an interest in the Fund in a taxable transaction generally will recognize gain or loss equal to the difference, if any, between the adjusted basis of the interest and the amount realized from the sale or disposition. The amount realized will include the U.S. Member's share of the Fund's liabilities outstanding at the time of the sale or disposition. Capital gain would be eligible for a reduced rate of federal income taxation if the interest has been held for more than one year. The holding period for capital gains purposes begins on the day after the interest is issued to the U.S. Member.

In the event of a sale or other transfer of an interest at any time other than the end of the Fund's taxable year, the share of income and losses of the Fund for the year of transfer attributable to the interest transferred will be allocated for federal income tax purposes between the transferor and the transferee on either an interim closing-of-the-books basis or a pro rata basis reflecting the respective periods during such year that each of the transferor and the transferee owned the interest.

### **Tax-Exempt Members**

In general, organizations that are otherwise exempt from federal income taxation pursuant to Section 501(a) of the Code ("Tax-Exempt Investors") are subject to taxation with respect to any unrelated business taxable income ("UBTI"). Under Section 512(c) of the Code, when computing UBTI, a Tax-Exempt Investor must include its distributive share of income of any partnership of which it is a partner to the extent that such income would be UBTI if earned directly by the Tax-Exempt Investor.

UBTI is generally defined as gross income from a trade or business regularly carried on by a tax-exempt entity that is unrelated to its exempt purpose (including an unrelated trade or business regularly carried on by a partnership of which the entity is a partner) less the deductions directly connected with that trade or business. Subject income earned through conducting a U.S. trade or business and to the discussion of the "unrelated debt financed income" below, UBTI generally does not include interest, most real property rents or gains from the sale, exchange, or other disposition of property (other than inventory or property held primarily for sale to customers in the ordinary course of a trade or business), but does include operating income from businesses owned directly or through a "flow-through" entity for U.S. federal income tax purposes.

If a Tax-Exempt Investor's acquisition of an interest in the Fund is debt-financed, or the Fund incurs "acquisition indebtedness" with respect to an investment, then all or a portion of the income attributable to the debt-financed property will be included in UBTI regardless of whether such income would otherwise be excluded as dividends, interests, rents, gain or loss from sale of eligible property or similar income. Such treatment will apply, in the case of ordinary income, only in tax years in which the Fund had acquisition indebtedness outstanding or, in the case of a sale, if the Fund had acquisition indebtedness outstanding at any time during the 12-month period prior to the sale.

In addition, UBTI can be realized through an acquisition, development, and disposition strategy whereby the Fund would be treated as a "dealer" with respect to all or part of the assets in which it invests. In this case all the gain from the disposition of such assets generally would be UBTI (subject to a limited exception for gain from the sale of certain real estate assets acquired from insolvent financial institutions).

Because the Fund expects to incur "acquisition indebtedness" with respect to certain investments, Tax-Exempt Investors will likely recognize UBTI with respect to an investment in the Fund. In addition, the loan programs and some of the direct acquisitions of real property may constitute a U.S. trade or business. The Manager may, in its sole discretion, establish parallel, feeder, or alternative entities such as partnerships, corporate subsidiaries, or other investment vehicles to address the tax, regulatory, or other concerns of certain prospective Investors. In addition, the Manager may also, in its sole discretion, reorganize the Fund into a master-feeder structure. However, there can be no assurance that the Tax-Exempt Investors will not incur UBTI with respect to any investment. Accordingly, Tax-Exempt Investors are urged to consult with their own tax advisors regarding the possible consequences of an investment in the Fund.

TAX-EXEMPT INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING ALL ASPECTS OF UBTI.

### **Non-U.S. Members**

Non-U.S. Members that invest directly in the Fund generally will be subject to U.S. federal income tax on their distributive share of the taxable income of the Fund that is deemed to be "effectively connected" with a U.S. trade or business as if they were U.S. citizens or residents, regardless of whether the Fund makes any cash distributions.

Generally Non-U.S. Members that invest directly in the Fund will be required to file a U.S. federal income tax return with respect to their distributable share of the Fund's effectively connected income. Investments made in the U.S. by the Fund may cause the Fund to be engaged in a U.S. trade or business. In that event, Non-U.S. Members would be considered engaged in a U.S. trade or business. Income and gain from any such U.S. investments, including a portion of gain on the sale or redemption of interests in the Fund, may be treated as effectively connected with the conduct of a U.S. trade or business and thus be subject to U.S. federal income tax, regardless of whether the Fund makes any cash distributions.

Generally, the Fund would be required to withhold at a 35% rate from effectively connected income allocable to Non-U.S. Members. In addition, such Non-U.S. Members would be required to file U.S. federal income tax returns. Any such Non-U.S. Members that are non-U.S. corporations may also be subject to a 30% branch profits tax on their share of certain effectively connected earnings and profits, although the rate may be reduced under applicable tax treaties.

If the Fund generates any U.S. source, "fixed or determinable, annual or periodic" gains, profits or income, such as interest or dividends, that is not effectively connected with a U.S. trade or business, a Non-U.S. Member's allocable share of such income (whether or not distributed) will be subject to U.S. withholding tax at 30%, unless reduced or eliminated by an applicable exception or tax treaty.

In addition, regardless of whether the activities of a Fund constitute a U.S. trade or business, Non-U.S. Members will be taxable on any gain derived from the disposition of a "U.S. real property interest" as if such gain were effectively connected income. U.S. real property interests include interests in U.S. real estate and certain U.S. corporations that hold predominantly U.S. real estate investments. Generally, the Fund will be required to withhold 35% of any gain attributable to dispositions of U.S. real property interests. The 30% branch profits tax may also apply to corporate non-U.S. Members. In addition, a purchaser may be required to withhold 10% of the purchase price upon a sale of an interest in the Fund if, among other requirements, the Fund's gross assets consist of at least 50% U.S. real property interests.

Recently enacted legislation will impose certain increased certification requirements and information reporting for Non-U.S. Members. In the event of noncompliance with the revised certification requirements, a 30% withholding tax could be imposed on payments of interests, dividends and sales proceeds. Under certain circumstances, a Non-U.S. Member may be eligible to seek from the IRS a refund or credit of such withholding taxes. Prospective Investors should consult their own tax advisors regarding this new legislation.

The Manager may, in its sole discretion, establish parallel, feeder, or alternative entities such as partnerships, corporate subsidiaries, or other investment vehicles to address the tax, regulatory, or other concerns of certain prospective Investors. However, there can be no

assurance that the Non-U.S. Members will not be treated as engaged in a U.S. trade or business or be required to file U.S. tax returns or pay such U.S. taxes with respect to any investment. Accordingly, Non-U.S. Members are urged to consult with their own tax advisors regarding the possible consequences of an investment in the Fund.

NON-U.S. MEMBERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING ALL ASPECTS OF AN INVESTMENT IN THE FUND.

### **Treatment of Withholding Taxes**

The Fund will withhold and pay to the IRS any withholding taxes required to be withheld with respect to any Member and will treat such withholding as a payment to such Member. Such payment will be treated as a distribution to the extent that the Member is then entitled to receive a cash distribution. To the extent that such payment exceeds the amount of any cash distribution to which such Member is then entitled, such Member is required, as set forth in the Operating Agreement, to make prompt payment to the Fund.

Each prospective Investor is urged to consult with and must rely upon the advice of its own professional tax advisors with respect to the United States and foreign tax treatment of an investment in the Fund.

### **State, Local Taxes and Foreign Tax Considerations**

The foregoing discussion does not address the state, local, and foreign tax considerations of an investment in the Fund. Prospective Investors are urged to consult their own tax advisors regarding those matters and all other tax aspects of an investment in the Fund. It should be noted that the Members may be subject to state or local income, franchise or withholding taxes in those jurisdictions where the Fund owns real estate assets or is otherwise regarded as doing business, and may be required to file tax returns in such jurisdictions. It also should be noted that it is possible that the Fund itself may be subject to state or local tax in certain jurisdictions.

### **Reporting**

The Manager will furnish each Member with an annual statement setting forth information relating to the operations of the Fund (including information regarding such Member's distributive share of partnership income and gains, losses, deductions, and credits for the taxable year) as is reasonably required to enable the Member to properly report to the IRS with respect to such Member's participation in the Fund.

The federal information tax returns filed by the Fund will be subject to audit by the IRS and the audit of the Fund's returns could result in an audit of the Members' own federal income tax returns. In connection with such audits, adjustments to Fund items could result in the assertion of tax deficiencies (as well as interest and penalties thereon) against the Members. Any administrative or judicial proceedings involving the federal income tax treatment of Fund items will generally be conducted on a unified basis, with binding effect on all Partners. The Manager will serve as the Fund's "Tax Matters Partner" for purposes of coordinating any such proceedings and providing any required notices about such proceedings to the Members.

### **Reportable Transactions Regulation**

Treasury regulations impose special reporting rules for "reportable transactions." A reportable transaction includes, among other things, a transaction in which an advisor limits the

disclosure of the tax treatment or tax structure of the transaction and receives a fee in excess of certain thresholds. The Manager intends to take the position that an investment in the Fund did not constitute a reportable transaction. If it were determined that an investment in the Fund does constitute a reportable transaction, each Member would be required to complete and file IRS Form 8886 with such Member's tax return for the tax year that includes the date that such Partner acquired an interest in the Fund. The Manager reserves the right to disclose certain information about the Members and the Fund to the IRS on Form 8886, including the Members' capital commitments, tax identification numbers (if any), and dates of admission to the Fund, to facilitate compliance with the reportable transaction rules if necessary. In addition, the Fund may engage in certain transactions which themselves constitute reportable transactions and with respect to which both the Fund and certain Members may be required to file Form 8886. Certain states have similar reporting requirements and may impose penalties for failure to report. Prospective Investors should consult their tax advisors for advice concerning compliance with the reportable transaction regulations.

POTENTIAL MEMBERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF AN INVESTMENT IN THE FUND.

### **U.S. Partnership Tax Audit Risk**

Under current law, the Fund, which intends to be treated as a partnership for U.S. tax purposes, will be required to file a tax return with the IRS. If the tax returns of the Fund are audited by the IRS, the tax treatment of the Fund's income and deductions generally is determined at the Fund level and U.S. tax deficiencies arising from the audit, if any, are paid by the Members that were partners for U.S. tax purposes in the year subject to the audit.

Under the general rule imposed under new legislation, an audit adjustment of the Fund's tax return filed or required to be filed for any tax year beginning during or after 2018 (a "Filing Year") could result in a tax liability (including interest and penalties) imposed on the Fund for the year during which the adjustment is determined (the "Adjustment Year"). The tax liability generally is determined by using the highest tax rates under the Code applicable to U.S. taxpayers, in which case any Adjustment Year partners of the Fund would bear the audit tax liability at significantly higher rates (including interest and penalties) arising from audit adjustments and in amounts that are unrelated to their Filing Year economic interests in the Fund partnership items that were adjusted.

To mitigate the potential adverse consequences of the general rule, the Fund may be able to elect to pass through such audit adjustments for any year to the Members who were partners in the Fund for the Filing Year, in which case those partners generally would be responsible for the payment of any tax deficiency, determined after including their shares of the adjustments on their tax returns for the Adjustment Year.