CONFIDENTIAL
PRIVATE PLACEMENT MEMORANDUM

AVONDALE PRIVATE LENDING LLC

A Texas limited liability company

Maximum Offering Amount:
$100,000,000

Minimum Investment Amount:
$100,000

ACCREDITED INVESTORS ONLY

SUPPLEMENT NUMBER ONE

This Supplement Number One ("**Supplement**") to the Confidential Limited Offering Memorandum dated April 1, 2025, including any amendments thereto (the "**Memorandum**"), is furnished on a confidential basis for the purpose of evaluating an investment in membership units ("**Units**") in Avondale Private Lending LLC, a Texas limited liability company (the "**Fund**"). The Manager of the Fund is Avondale Investment Management, LLC, a Texas limited liability company (the "**Manager**"). The purpose of the Fund is to: create a highly diversified portfolio of real estate-based assets ("**Assets**" or "**Fund Assets**") that will produce attractive risk adjusted returns. The Fund expects to invest in Assets across the United States, with a primary focus in Texas. The Fund will endeavor to spread its risk in a myriad of ways; geographically, by asset type, investment structure, by property type, by borrower, by duration of term, by exit strategy of each asset, and by investment size.

The Fund is offering (the "**Offering**"), by means of this Supplement and the Memorandum, Units on a "best efforts" basis to qualified investors who meet the Investor Suitability standards as set forth herein. (See "Investor Suitability" in the Memorandum.) By purchasing Units, investors will become members in the Fund. Prospective investors who execute a subscription agreement ("**Subscription Agreement**") to invest in the Fund will become a member ("**Member**") once the Manager countersigns the Subscription Agreement in accordance with the terms and conditions in the Memorandum and Subscription Agreement. (See "Subscription Agreements; Admission to the Fund," and "Principal Risk Factors" in the Memorandum.) An investment in the Fund may be illiquid and is subject to restrictions on withdrawal. (See "Principal Risk Factors" in the Memorandum.) Investors receive monthly allocations of income from Fund operations, if any. (See "Preferred Return" and "Profit Participation / Distribution of Distributable Cash" in the Memorandum.) Fund income will generally be taxed to Members (other than tax-exempt entities) as ordinary income, except to the extent of any distributions from a real estate investment trust that are eligible for the Twenty Percent (20%) "qualified business income" deduction. (See "Income Tax Considerations" below.) This Offering also involves certain ERISA risks that should be considered by tax-exempt employee benefit plans. (See "Certain Considerations Applicable to ERISA, Government and Other Plan Investors" in the Memorandum.)

THIS OFFERING INVOLVES SIGNIFICANT RISKS, DESCRIBED IN DETAIL IN THE MEMORANDUM. See "Risk Factors" for certain factors investors should consider before buying Units.

Compensation will be paid to the Manager, who is subject to certain conflicts of interest. (See the "Principal Risk Factors," "Fund Management Not Required to Devote Full-Time," and "Potential Conflicts of Interests with Manager" in the Memorandum). Prospective purchasers of Units should carefully read this Supplement and the Memorandum in their entirety.

These securities have not been approved or disapproved by the Securities and Exchange Commission ("**SEC**") or any state securities commission, nor has the SEC or any state securities commission passed upon the accuracy or adequacy of this Supplement or the Memorandum. Any representation to the contrary is a criminal offense.

Investors should rely only on the information contained in this Supplement and the Memorandum. The Fund has not authorized anyone to provide investors with information different from that contained in this Supplement or the Memorandum. The information in this Supplement is accurate only as of the date of this Supplement, regardless of the date of delivery of the Memorandum or the sale of any of the Units.

Prospective investors may request from the Manager copies of documents and summaries typically provided by the Manager to Members. The Manager will typically make copies of these documents available to any prospective investors upon reasonable request thereof.

THIS OFFERING IS MADE IN RELIANCE ON AN EXEMPTION FROM REGISTRATION WITH THE SEC PROVIDED BY SECTION 4(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "**ACT**"), AND RULE 506(C) OF REGULATION D PROMULGATED THEREUNDER.

THIS INVESTMENT INVOLVES A DEGREE OF RISK THAT MAY NOT BE SUITABLE FOR ALL PERSONS. ONLY THOSE INVESTORS WHO HAVE NO NEED FOR LIQUIDITY AND CAN BEAR THE LOSS OF A SIGNIFICANT PORTION (OR ALL) OF THEIR INVESTMENT SHOULD PARTICIPATE IN THE INVESTMENT. (SEE "RISK FACTORS" BELOW.)

CERTAIN TERMS OF THE OFFERING

	Price to Investors [1]	Estimated Selling Commissions [2]	Estimated Fund Proceeds [3]
Minimum Investment Amount[4]	$100,000	$0	$100,000
Maximum Offering Amount[5]	$100,000,000	$0	$100,000,000

1. The Offering price to investors was arbitrarily determined by the Manager.

2. Units and/or Notes will be offered and sold directly by the Fund, Manager and the Fund's and Manager's respective officers and employees. No commissions for selling Units and/or Notes will be paid to the Fund, Manager or the Fund's or Manager's respective officers or employees. While most Units are expected to be offered and sold directly by the Fund, the Manager and their respective officers and employees, the Fund or Manager may also, in limited instances, offer and sell Units through the services of independent broker/dealers who are member firms of the Financial Industry Regulatory Authority ("FINRA") and who will be entitled to receive customary and standard commissions based on the gross proceeds received for the sale of Units. These commissions will be paid by the Manager. Although neither the Fund nor the Manager expects to make a large number of sales of Units through broker/dealers, each reserves the right in its respective sole discretion to make any or all offers and sales through broker/dealers. The amount and nature of commissions payable to broker/dealers is expected to vary in specific instances and will be agreed on a case-by-case basis by the Manager in its sole and absolute discretion. The Manager (and not the Fund) will be responsible for all such commissions payable to broker/dealers.

3. Net proceeds to the Fund are calculated before deducting organization and offering expenses. The expenses relating to this Offering include, without limitation, accounting, promotional, organizational, and other operational expenses. The remaining Offering proceeds will be available for investment in assets pursuant to the business plan of the Fund. The Manager will receive its compensation from a variety of sources, including, without limitation, a management fee assessed to the Fund. The Manager may, in its sole and absolute discretion, elect to be responsible for some or all of the foregoing expenses related to the Offering, whether through direct payment of such expenses or reimbursement to the Fund of such expenses incurred.

4. Assumes the sale of the Minimum Investment Amount (which has been satisfied as of the date of this Memorandum). Notwithstanding the foregoing, the Fund and Manager reserve the right, in their sole and absolute discretion to, at any time, and for any or no reason, accept subscriptions in a lesser amount or reject any subscription(s). The Fund may, at its sole and absolute discretion, at any time during the period of the Offering, increase or decrease the Minimum Investment Amount.

5. Assumes sale or ownership of the Maximum Offering Amount. It is possible the Fund will sell less than the Maximum Offering Amount but more than the Minimum Offering Amount.

MANAGER:
AVONDALE INVESTMENT MANAGEMENT, LLC
7701 Lemmon Avenue, Suite 260-143D
Dallas, TX 75209
The date of this Supplement is October 29, 2025.

THESE UNITS ARE BEING OFFERED TO ACCREDITED INVESTORS ONLY. THIS SUPPLEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY WITH RESPECT TO ANY OTHER PERSON.

COMPENSATION WILL BE PAID TO THE MANAGER, WHICH WAS NOT DETERMINED BY ARM'S LENGTH NEGOTIATION. THE MANAGER IS ALSO SUBJECT TO CERTAIN CONFLICTS OF INTEREST.

PROSPECTIVE INVESTORS SHOULD NOT REGARD THE CONTENTS OF THIS SUPPLEMENT, THE MEMORANDUM OR ANY OTHER COMMUNICATION FROM THE FUND AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH POTENTIAL INVESTOR IS ENCOURAGED TO CONSULT WITH HIS OR HER OWN INDEPENDENT LEGAL, ACCOUNTING AND TAX ADVISORS PRIOR TO INVESTING IN THE FUND.

THIS SUPPLEMENT HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF AUTHORIZED PERSONS INTERESTED IN THE OFFERING. IT CONTAINS CONFIDENTIAL INFORMATION AND MAY NOT BE DISCLOSED TO ANYONE OTHER THAN AUTHORIZED PERSONS SUCH AS ACCOUNTANTS, FINANCIAL PLANNERS OR ATTORNEYS RETAINED FOR THE PURPOSE OF RENDERING PROFESSIONAL ADVICE RELATED TO THE PURCHASE OF SECURITIES OFFERED HEREIN. IT MAY NOT BE REPRODUCED, DIVULGED OR USED FOR ANY OTHER PURPOSE UNLESS WRITTEN PERMISSION IS OBTAINED IN ADVANCE FROM THE FUND.

THE SALE OF UNITS COVERED BY THIS SUPPLEMENT HAS NOT BEEN REGISTERED WITH THE SEC UNDER THE ACT, IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS SET FORTH IN SECTION 4(A)(2) OF THE ACT AND RULE 506(C) OF REGULATION D THEREUNDER. THESE SECURITIES HAVE NOT BEEN QUALIFIED OR REGISTERED IN ANY STATE IN RELIANCE UPON THE EXEMPTIONS FROM SUCH QUALIFICATION OR REGISTRATION UNDER STATE LAW. THESE SECURITIES ARE "**RESTRICTED SECURITIES**" AND MAY NOT BE RESOLD OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT COVERING DISPOSITION OF SUCH UNITS IS THEN IN EFFECT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

THERE IS NO PUBLIC MARKET FOR THE UNITS AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. ANY SUMS INVESTED IN THE FUND ARE ALSO SUBJECT TO SUBSTANTIAL RESTRICTIONS UPON WITHDRAWAL AND TRANSFER. THE UNITS OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THE INFORMATION AND REPRESENTATIONS SPECIFICALLY CONTAINED IN THIS SUPPLEMENT; ANY OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON. ANY PROSPECTIVE PURCHASER OF THE UNITS WHO RECEIVES ANY OTHER INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE FUND IMMEDIATELY TO DETERMINE THE

ACCURACY OF SUCH INFORMATION AND REPRESENTATIONS. NEITHER THE DELIVERY OF THIS SUPPLEMENT NOR ANY SALES HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE FUND OR IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE OF THIS SUPPLEMENT SET FORTH ABOVE.

THE PURCHASE OF UNITS BY AN INDIVIDUAL RETIREMENT ACCOUNT (IRA), KEOGH PLAN OR OTHER QUALIFIED RETIREMENT PLAN INVOLVES SPECIAL TAX RISKS AND OTHER CONSIDERATIONS THAT SHOULD BE CAREFULLY CONSIDERED. INCOME EARNED BY QUALIFIED PLANS AS A RESULT OF AN INVESTMENT IN THE FUND MAY BE SUBJECT TO FEDERAL INCOME TAXES, EVEN THOUGH SUCH PLANS ARE OTHERWISE TAX EXEMPT.

THE UNITS ARE OFFERED SUBJECT TO WITHDRAWAL OR CANCELLATION OF THE OFFERING AT ANY TIME FOR ANY OR NO REASON AND WITHOUT ANY NOTICE THEREOF TO PROSPECTIVE INVESTORS. THE FUND RESERVES THE RIGHT, IN ITS SOLE AND ABSOLUTE DISCRETION, TO REJECT ANY SUBSCRIPTIONS IN WHOLE OR IN PART FOR ANY OR NO REASON AT ANY TIME.

THE FUND WILL MAKE AVAILABLE TO ANY PROSPECTIVE INVESTOR AND ITS ADVISORS THE OPPORTUNITY TO ASK QUESTIONS AND RECEIVE ANSWERS CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING, THE FUND, AND/OR THE MANAGER OR ANY OTHER RELEVANT MATTERS, AND TO OBTAIN ANY ADDITIONAL INFORMATION TO THE EXTENT THE FUND POSSESSES SUCH INFORMATION.

THIS OFFERING INVOLVES SIGNIFICANT RISKS WHICH ARE DESCRIBED IN DETAIL HEREIN. FEES WILL BE PAID TO THE MANAGER AND ITS AFFILIATES, WHO ARE SUBJECT TO CERTAIN CONFLICTS OF INTEREST. PROSPECTIVE PURCHASERS OF UNITS SHOULD READ THIS SUPPLEMENT CAREFULLY AND IN ITS ENTIRETY.

THE INFORMATION CONTAINED IN THIS SUPPLEMENT HAS BEEN SUPPLIED BY THE MANAGER AND THE FUND. THIS SUPPLEMENT CONTAINS SUMMARIES OF CERTAIN DOCUMENTS NOT CONTAINED IN THIS SUPPLEMENT, WHICH ARE BELIEVED BY THE MANAGER AND THE FUND TO BE ACCURATE. HOWEVER, ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCES TO THE ACTUAL DOCUMENTS. COPIES OF DOCUMENTS REFERENCED IN THIS SUPPLEMENT, BUT NOT INCLUDED HEREIN AS AN EXHIBIT, WILL BE MADE AVAILABLE TO QUALIFIED PROSPECTIVE INVESTORS UPON REQUEST.

INTRODUCTION

This Supplement is intended to update the "Risk Factors" section and the "Tax Aspects" section of the Memorandum. This Supplement does not update any information except as specifically described herein. To the extent, and only to the extent, the information contained herein conflicts with information contained in the Memorandum, the information contained herein will supersede such prior information. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Memorandum.

PART I

Below, please find certain additional Risk Factors to supplement the "Risk Factors" section of the Memorandum.

The Fund will be taxed as a "Partnership" and the Members will be taxed as "Partners"

The Fund will elect to be treated as a partnership for federal income tax purposes. All statements contained herein concerning the U.S. federal income tax (or other tax) consequences of an investment in the Fund are based on existing laws and interpretations thereof. The tax consequences of an investment in the Fund, including any favorable federal tax treatment presently available with respect to the Fund may be materially affected by any changes in tax laws that may result through future Congressional action, tax court or other judicial decisions, or interpretations of the U.S. Internal Revenue Service ("**IRS**"). While some of these changes may be beneficial, others could negatively affect the after-tax returns of the Fund and the Members. IN VIEW OF THE FOREGOING, PROSPECTIVE MEMBERS ARE URGED TO REVIEW THE "INCOME TAX CONSIDERATIONS" SECTION CAREFULLY AND TO CONSULT THEIR OWN TAX COUNSEL.

Tax and ERISA Risks

Investment in the Fund involves certain tax risks of general application to all investors in the Fund, and certain other risks specifically applicable to Keogh accounts, IRAs and other tax-exempt investors.

U.S. Federal Income Tax Liability Resulting from IRS Audits

U.S. federal income taxes arising from an IRS audit will be paid by the Fund absent an election to the contrary. In addition, a partnership representative ("**Partnership Representative**") will have the power to act on behalf of the Fund and its Members in all IRS audits and other proceedings involving the Fund's U.S. federal income, loss, deductions, and credits. See Section "Resolution of Disputes with the Service."

Failure to Maintain REIT Qualification.

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

REIT Ownership Restrictions.

The governing documents of each REIT Subsidiary in which the Fund invests, if any, will contain ownership restrictions that generally restrict the beneficial ownership of interests in a REIT such that no more than Fifty Percent (50%) in value of the entity's outstanding shares may be owned, directly or indirectly (including through a partnership), by five or fewer individuals (as specially defined in the Code to include certain entities) at any time during the last half of any taxable year subsequent to the first year for which the entity's REIT qualification is effective. The purpose of the ownership restrictions is to assist in protecting and preserving a REIT's status as a REIT under the Code. For an entity to qualify as such under the Code, the ownership restrictions generally permit five persons to acquire (indirectly through the ownership of an interests in the Fund), up to a maximum of an aggregate of Fifty Percent (50%) of the outstanding interests of a REIT and, thus, assist such REIT in protecting and preserving its status as a real estate investment trust under the Code.

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

REIT Tax and Legislative Risks Associated with REITs

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

Taxable REIT Subsidiaries

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

Allocation of Management Fees to REIT Subsidiaries

The Manager has discretion to allocate its compensation, including the Management Fee, expenses, and any other fees to be charged at the Fund level and/or at the REIT Subsidiary level.

PART II

Below, please find certain additional tax information to supplement the "Tax Considerations" section and "Tax Aspects" of the Memorandum. Where this information conflicts with "Tax Considerations," the following information shall control.

INCOME TAX CONSIDERATIONS

Federal Income Tax Aspects

The following discussion summarizes certain material U.S. federal income tax consequences of an investment in the Fund based upon the existing provisions of the Code, and applicable Treasury regulations thereunder, current administrative rulings and procedures and applicable judicial decisions. However, it is not intended to be a complete description of all material U.S. federal income tax consequences to prospective investors with respect to their investment in the Fund. Generally, this discussion does not address state, local, or non-U.S. tax consequences of an investment in the Fund to any investor, and does not discuss any consequences of an investment in the Fund by a non-U.S. investor. No assurance can be given that the IRS will agree with the interpretation of the current federal income tax laws and regulations summarized below. In addition, the Fund or the investors may be subject to state and local taxes in jurisdictions in which the Fund may be deemed to be doing business.

ACCORDINGLY, ALL PROSPECTIVE INVESTORS SHOULD INDEPENDENTLY SATISFY THEMSELVES REGARDING THE POTENTIAL FEDERAL AND STATE TAX CONSEQUENCES OF PARTICIPATION IN THE FUND AND ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS, ATTORNEYS, OR ACCOUNTANTS IN CONNECTION WITH ANY UNIT IN THE FUND. EACH PROSPECTIVE INVESTOR/MEMBER SHOULD SEEK, AND RELY UPON, THE ADVICE OF THEIR OWN TAX ADVISORS IN EVALUATING THE SUITABILITY OF AN INVESTMENT IN THE FUND IN LIGHT OF THEIR PARTICULAR INVESTMENT AND TAX SITUATION.

Tax Law Subject to Change

Frequent and substantial changes have been made, and will likely continue to be made, to federal and state income tax laws. The changes made to tax laws by legislation are pervasive, and in many cases, have yet to be interpreted by the IRS or the courts.

State and Local Taxes

A description or analysis of the state and local tax consequences of an investment in the Fund is beyond the scope of this discussion. Prospective Members are advised to consult with their own tax counsel and advisors regarding these consequences and the preparation of any state or local tax returns that an investor may be required to file.

Federal Partnership Treatment

The Fund is likely to be treated as a partnership under the Code. Assuming the Fund has been properly formed under Texas law, is operated in accordance with applicable Texas corporate and business law and the terms of the operating agreement ("**Operating Agreement**"), it is the Fund's opinion that, if the matter was litigated, it is more likely than not the Fund would prevail as to its classification and would be taxed as a partnership for federal income tax purposes. If the IRS determined the Fund was an association taxable as a corporation for federal income tax purposes, there would be significant adverse tax consequences to the Fund and possibly to its investors, including (without limitation), that the Fund must pay tax on its net income and the investor would pay tax on any distributions as dividends as opposed to interest income.

Certain Consequences to U.S. Members

The following discussion summarizes certain significant U.S. federal income tax consequences to a prospective investor who (i) owns, directly or indirectly through a partnership, limited liability company or other flow-through entity, an interest as a Member; (ii) is, with respect to the United States, a citizen or resident individual, a domestic corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, a trust for which a court in the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions, or a trust that has made a valid election to be treated as a U.S. person pursuant to applicable U.S. Treasury Regulations, as such terms are defined for U.S. federal income tax purposes; and (iii) is not tax-exempt (a "**U.S. Member**").

This summary assumes the Fund will be treated as being engaged in the ordinary course of a trade or business as a result of its lending activities outside of REIT Subsidiaries. There can be no assurance in this regard, however, and materially different tax consequences may result if the Fund is instead treated as investing in securities and not being engaged in a trade or business (which treatment is expected if the Fund conducts all of its lending activities through one or more REIT Subsidiaries).

Under current U.S. federal income tax law, most miscellaneous investment expenses are not deductible by non-corporate taxpayers. Accordingly, a non-corporate U.S. Member's share of the Asset Management Fee and most other Fund expenses will not be deductible. Members that are corporations for U.S. federal income tax purposes are not subject to this deduction disallowance rule, but such deduction disallowance rule does apply to individual shareholders of S-corporation Members.

Non-corporate investors (and certain closely held and personal service corporations) are subject to limitations on using losses from passive business activities to offset active business income, compensation income, and portfolio income (e.g., interest, dividends, capital gains from portfolio investments and royalties). The Fund's distributive share of income or losses from an investment in equity securities of a flow-through entity engaged in business (which amounts are not expected to be material for the Fund), or the Fund's income or loss to the extent that it is engaged in a trade or business, generally will be treated as passive activity income or losses. Accordingly, a Member will be subject to the passive activity loss limitations on the use of any such losses, and such losses, together with any other passive activity losses generated by such other investments made by the Member, can generally be used only to offset the Fund's passive activity income allocable to such Member and any other passive activity income generated by such other investments. Income and gain of the Fund not treated as passive activity income generally will be treated as portfolio income, and a Member generally will not be able to use passive activity losses to offset such portfolio income from the Fund. Under the business interest expense limitation described below, additional limitations on deductibility may apply to the extent that any portion of a passive activity loss consists of interest expense incurred by the underlying business.

If the Fund is not treated as engaged in a U.S. trade or business, interest on any amount borrowed by a Member (other than a corporation) to purchase an interest in the Fund or to make a capital contribution to the Fund generally will be "investment interest" and subject to a limitation on deductibility. In general, investment interest is deductible only to the extent of the taxpayer's "net investment income." For this purpose, "net investment income" generally includes net income from the Fund and other income from property held for investment (other than, in each case, income treated as business income). However, qualified dividend income, as defined under Section 1(h)(11)(B) of the Code, and long-term capital gain is excluded from the definition of net investment income unless the taxpayer makes a special election to treat such dividend income or capital gain as ordinary. The Fund does not expect to generate material amounts of qualified dividend income or long-term capital gain. Investment interest that is not deductible in the year incurred because of the investment interest limitation may be carried forward and deducted in a future year in which the taxpayer has sufficient investment income.

If the Fund is deemed to be engaged in a trade or business, or if the Fund holds an investment in equity securities of an issuer that is a partnership, limited liability company or other flow-through entity engaged in a trade or business (a "**Flow-Through Investment**"), a U.S. Member's allocable share of the net business interest expense (i.e., the excess of business interest expense over business interest income, which is not expected to be material for the Fund) attributable to the Fund or the Flow-Through Investment generally will be deductible by such U.S. Member only to the extent that such interest expense does not exceed Thirty Percent (30%) of the U.S. Member's allocable share of the applicable entity's "adjusted taxable income" for the applicable taxable year. A flow-through entity's adjusted taxable income generally means its ordinary taxable business income computed without reduction for any business interest expense, and, for taxable years beginning before January 1, 2024, without reduction for any depreciation, amortization or depletion. Unit that is not deductible in the year incurred because of the business interest limitation may be carried forward and deducted in a future year in which the taxpayer has sufficient adjusted taxable income. This limitation may increase the tax liability of U.S. Members attributable to flow-through investments and the tax liability of corporate entities in which the Fund directly or indirectly invests, potentially decreasing the after-tax returns of the Fund and its investors.

In addition, to the extent a non-corporate U.S. Member's allocable share of a loss attributable to the Fund or a Flow-Through Investment is otherwise available for use after application of the passive loss limitations, such loss may be treated as an "excess business loss." A non-corporate U.S. Member may use an excess business loss to offset other income only up to a specified dollar amount (initially Two Hundred Fifty Thousand Dollars ($250,000), or Five Hundred Thousand Dollars ($500,000) in the case of married taxpayers), which will be adjusted for inflation. Any disallowed excess business loss generally will be added to the U.S. Member's net operating loss and may be carried over to future years. The deductibility of net operating loss carryforwards is subject to further limitations.

Certain non-corporate U.S. Members may be eligible for a deduction equal to a portion of the income allocated to them that is generated by the Fund (to the extent it is engaged in a trade or business) or a Flow-Through Investment. In general, a U.S. taxpayer other than a corporation is entitled to a deduction equal to Twenty Percent (20%) of the taxpayer's "qualified business income," subject to certain limitations. "Qualified business income" is the sum of the taxpayer's income from qualified REIT dividends, qualified trades or businesses and qualified publicly traded partnership income, but generally excludes capital gains and other dividend income. Although many types of business are qualified trades or businesses, various types of service-related businesses are ineligible (including, for example, services in the fields of health, law, consulting, financial services and investment management). With respect to each taxable year, the Twenty Percent (20%) deduction is subject to a cap based on a percentage of the wages paid or capital invested with respect to the applicable qualified trade or business, although this cap does not apply with respect to REIT ordinary dividends and qualified publicly traded partnership income. Because of the foregoing limitations and the complexity associated with determining the amount of qualified business

income and the applicable deduction limitations, there can be no assurances that any of the Fund's income will be qualified business income or that (if a portion of the Fund's income does constitute qualified business income) the Fund will be able to provide information sufficient to enable individual U.S. Members to calculate their deductions with respect to such income.

REIT Matters - U.S. Members

The Fund may, but is not obligated to, hold certain investments through a REIT Subsidiary. Each REIT Subsidiary is expected to satisfy the requirements for taxation as a REIT under applicable provisions of the Code. No assurance can be given, however, that these requirements will be met.

If the requirements are met, then a REIT Subsidiary investing primarily in real estate and that otherwise would be treated for U.S. federal income tax purposes as a corporation is allowed a deduction for dividends paid to its owners. This treatment substantially eliminates the *"*double taxation*"* at both the corporate and owner levels that generally results from the use of corporations. However, a REIT Subsidiary would be subject to tax in certain circumstances even if it qualified as a REIT. For example, a REIT Subsidiary would be subject to tax at normal corporate rates upon any taxable income or capital gain not distributed to its shareholders, and would be subject to an additional Four Percent (4%) excise tax if it failed to make certain required distributions for a calendar year. A REIT Subsidiary would also be subject to a One Hundred Percent (100%) tax on a portion of its gross income if it failed to meet certain gross income tests for a taxable year and nonetheless maintained its qualification as a REIT because other requirements were met. So long as a REIT Subsidiary qualifies as a REIT, it will be subject to a tax of One Hundred Percent (100%) on net income from any *"*prohibited transaction,*"* which is a sale of property held primarily for sale to customers in the ordinary course of a trade or business, unless the REIT Subsidiary holds the property for at least Two (2) years and satisfies other requirements relating to the number of properties sold in a year, their tax bases and the cost of improvements made to the properties. For a REIT Subsidiary to qualify as a REIT, a number of requirements must be met including certain requirements on share ownership, tests relating to the nature of a REIT*'*s assets, tests relating to the sources of a REIT*'*s gross income, a requirement that a REIT make sufficient annual distributions to its shareholders (other than capital gain dividends) and other requirements and limitations with respect to prohibited transactions and foreclosure property. If a REIT Subsidiary fails to qualify for taxation as a REIT in any taxable year and relief provisions do not apply, then the REIT Subsidiary will be subject to tax on its taxable income at regular corporate rates.

Certain Consequences to Tax-Exempt Members

Organizations exempt from U.S. federal income tax under Section 501(a) of the Code, including ERISA plans, are subject to the tax on "unrelated business taxable income" ("**UBTI**") imposed by Section 511 of the Code. The Fund's activities may give rise to UBTI, and, accordingly, an investment in the Fund may result in UBTI for those tax-exempt Members that are subject to tax under Section 511 of the Code.

UBTI is generally defined as 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). However, subject to the discussion below of *"*debt-financed property,*"* UBTI generally does not include (i) dividends and interest, (ii) rents from real property, (iii) rents from personal property leased in connection with real property (provided that the amount of rent attributable to the personal property does not exceed Ten Percent (10%) of the total rent received under the lease), and (iv) gains from the sale, exchange or other disposition of property. If a tax-exempt Member borrows any amount outside the Fund to fund its capital commitment, a portion of its investment in the Fund may be considered debt-financed as a result and some or all of its distributive share of income from the Fund (including interest and capital gains) could be UBTI, in addition to any UBTI described above.

Moreover, debt incurred by the Fund directly or through an entity treated as a partnership, limited liability company or other flow-through entity could cause income from or with respect to the Fund or such entity to be treated as UBTI to a tax-exempt Member. The receipt of UBTI from any of these sources could be taxable to tax-exempt Members and could give rise to additional tax liability for certain limited categories of tax-exempt Members. A tax-exempt Member with an interest in more than one unrelated trade or business is required to separately compute its UBTI with respect to each trade or business. As a result, deductions or losses from one unrelated trade or business may not be used to offset UBTI from a different unrelated trade or business.

Section 4965 of the Code imposes excise taxes on certain tax-exempt entities and/or their managers if the entity is a party to a "prohibited tax shelter transaction" (as defined in Section 4965 of the Code). Under IRS guidance, a tax-exempt Member and/or its managers may be subject to excise taxes under Section 4965 of the Code as a result of transactions entered into by the Fund only if the Fund enters into a prohibited tax shelter transaction that is facilitated by reason of the tax-favored status of the tax-exempt Member. The Fund does not intend to enter into any prohibited tax shelter transaction that is facilitated by reason of the tax-favored status of any tax-exempt Member.

Prospective investors that are exempt from U.S. federal income taxation are strongly urged to consult their own tax advisers concerning the U.S. federal income tax consequences of making an investment in the Fund, in light of their particular circumstances, including whether receipt of UBTI is permitted under the specific rules applicable to them.

REIT Matters - Tax-Exempt U.S. Members

The Fund may, but is not obligated to, make certain investments through one or more REIT Subsidiaries as determined by the Manager in its sole discretion. Each REIT Subsidiary is expected to satisfy the requirements for taxation as a REIT under the applicable provisions of the Code. No assurance can be given, however, that those requirements will be met.

The IRS has issued a revenue ruling in which it held that amounts distributed by a REIT to a tax-exempt employees' pension trust do not constitute UBTI. Based upon the ruling, the analysis in the ruling and the statutory framework of the Code, distributions by a REIT Subsidiary to the Fund should not constitute UBTI to tax-exempt Members, provided that the Fund has not financed the acquisition of its interest in the REIT Subsidiary with "acquisition indebtedness" within the meaning of the Code, that the interests of the Fund held by the tax-exempt Members are not debt financed with acquisition indebtedness and are not otherwise used in an unrelated trade or business of the tax-exempt Member, that the REIT Subsidiary does not qualify as a "pension-held REIT," and that the REIT Subsidiary, consistent with present intent, does not hold a residual interest in a real estate mortgage investment conduit or taxable mortgage pool. For these purposes, a "pension-held REIT" is defined as a REIT if the REIT would not have qualified as a REIT but for the provisions of the Code which look through a pension trust qualifying under Section 401(a) of the Code in determining ownership of stock of a REIT and at least One (1) qualified pension trust holds more than Twenty-Five Percent (25%) by value of the interests of the REIT (directly or indirectly) or one or more qualified pension trusts (each owning more than a Ten Percent (10%) interest by value in the REIT) hold in the aggregate more than Fifty Percent (50%) by value of the interests in the REIT (directly or indirectly).

General Tax Consequences Relating to REITs

The Fund may, but is not obligated to, utilize one or more REITs for investments that are made in Assets that are suitable for, as determined by the Manager in its sole discretion, a REIT under applicable provisions of the Code. The Manager believes that each investment in such Assets will meet the requirements for

taxation as a REIT, and it intends to monitor compliance on an ongoing basis. No assurance can be given, however, that these requirements will be met.

If the requirements are met, then a REIT that invests primarily in real estate and that otherwise would be treated as a corporation for U.S. federal income tax purposes is allowed a deduction for dividends paid to its owners. This treatment substantially eliminates the "double taxation" at both the corporate and owner levels that generally results from the use of corporations. However, a REIT would be subject to tax in certain circumstances even if it qualified as a REIT. For example, a REIT would be subject to tax at normal corporate rates upon any taxable income or capital gain not distributed to its shareholders, and would be subject to an additional Four Percent (4%) excise tax if it failed to make certain required distributions for a calendar year. A REIT also would be subject to a One Hundred Percent (100%) tax on a portion of its gross income if the REIT failed to meet the Seventy-Five Percent (75%) or Ninety-Five Percent (95%) gross income tests, which are discussed below, for a taxable year and nonetheless maintained its qualification as a REIT because other requirements were met. So long as a REIT qualifies as a REIT, it will be subject to a tax of One Hundred Percent (100%) on net income from any "prohibited transaction," which is a sale of property held primarily for sale to customers in the ordinary course of a trade or business, unless the REIT holds the property for at least Two (2) years and satisfies other requirements relating to the number of properties sold in a year, their tax basis, and the cost of improvements made to the properties. If a REIT fails to qualify for taxation as a REIT in any taxable year and relief provisions do not apply, then the REIT will be subject to tax on its taxable income at regular corporate rates. To qualify as a REIT, the requirements described below must be met.

Share Ownership Test.

Shares of a REIT must be held by a minimum of One Hundred (100) persons for at least Three Hundred Thirty-Five (335) days in each taxable year or a proportional number of days in any short taxable year after the first taxable year of the REIT. In addition, at all times during the second half of each taxable year after the first taxable year of the REIT, no more than Fifty Percent (50%) in value of the shares may be owned, directly or indirectly and by applying constructive ownership rules, by Five (5) or fewer individuals, which for this purpose includes some tax-exempt entities (e.g., private foundations).

The governing documents for each REIT in which the Fund invests, if any, will contain certain restrictions on the actual and constructive ownership of such REIT's shares (considering certain attribution rules under the Code), which restrictions are intended to assist a REIT in satisfying certain of the share ownership requirements applicable to a REIT under the Code. In addition to the restrictions on direct and indirect transfers contained in a REIT's governing documents, Members may be required to provide the Fund with notice of certain indirect transfers of equity interests in such REIT, which notice requirements are intended to assist a REIT in satisfying certain of the Code's share ownership requirements applicable to such REIT. If a transfer of an interest in the Fund or of any direct or indirect ownership interest in a Member causes shares of a REIT held by the Fund to be converted into "Excess Shares" pursuant to the REIT's governing documents, then the transferee of the interest in the Fund or the Member may be subject to adverse consequences, including being required to repay certain distributions received by it from the Fund that are attributable to the "Excess Shares" and having its right to certain future distributions reduced.

Asset Tests.

At the close of each quarter of its taxable year, a REIT must satisfy tests relating to the nature of its assets determined in accordance with generally accepted accounting principles. Where a REIT invests in a partnership or limited liability company taxed as a partnership or disregarded entity, the REIT will be deemed to own a proportionate share of the partnership's, limited liability company's or disregarded entity's assets. First, at least Seventy-Five Percent (75%) of the value of total assets must be represented by interests

in real property, interests in mortgages on real property, shares in other real estate investment trusts, cash, cash items, government securities and qualified temporary investments. Second, although the remaining Twenty-Five Percent (25%) of the value of total assets generally may be invested without restriction, a REIT is prohibited from owning securities representing more than Ten Percent (10%) of either the vote or value of the outstanding securities of any issuer other than a qualified REIT Subsidiary, another REIT or a taxable REIT Subsidiary. Further, no more than Twenty Percent (20%) of the value of the total assets of a REIT may be represented by securities of one or more taxable REIT Subsidiaries, and no more than Five Percent (5%) of the value of the total assets of a REIT may be represented by securities of any non-government issuer other than a taxable REIT Subsidiary.

A REIT will not lose its status as a REIT for failing to satisfy the Five Percent (5%) or Ten Percent (10%) asset tests in any quarter if the failure is due to the ownership of assets the total value of which does not exceed the lesser of (i) One Percent (1%) of the total value of the REIT's assets at the end of the quarter for which the measurement is done and (ii) Ten Million Dollars ($10,000,000), provided that, in either case, the REIT either disposes of the assets within Six (6) months after the last day of the quarter in which the REIT identifies the failure (or another time period prescribed by the U.S. Treasury), or otherwise meets the requirements of those rules by the end of that period. If a REIT fails to meet any of the asset test requirements for a quarter and that failure exceeds the de minimis threshold described above, the REIT may still qualify as a REIT if the REIT were entitled to relief provisions under the Code. These relief provisions generally will be available if:

a) following the REIT's identification of the failure, the REIT files a schedule with a description of each asset that caused the failure, in accordance with regulations prescribed by the U.S. Treasury;

b) the failure was due to reasonable cause and not to willful neglect;

c) the REIT disposes of the assets within Six (6) months after the last day of the quarter in which the identification occurred or another time period prescribed by the U.S. Treasury (or the requirements of the rules are otherwise met within that period); and

d) the REIT pays a tax equal to the greater of (1) Fifty Thousand Dollars ($50,000) and (2) the amount determined (pursuant to regulations prescribed by the U.S. Treasury) by multiplying the net income generated by the assets that caused the failure for the particular quarter by the highest applicable corporate tax rate.

Gross Income Tests.

There are currently two separate percentage tests relating to the sources of the gross income that must be satisfied for each taxable year. For purposes of these tests, where a REIT invests in a partnership or limited liability company taxed as a partnership or disregarded entity, the REIT will be treated as receiving its share of the income and loss of the partnership, limited liability company or disregarded entity, and the gross income of the partnership, limited liability company or disregarded entity will retain the same character in the hands of the REIT as it has in the hands of the partnership, limited liability company or disregarded entity. The two tests are as follows:

The 75% Test. At least Seventy-Five Percent (75%) of the gross income for the taxable year must be "qualifying income." Qualifying income generally includes, among other things, rents from real property (with some exceptions), interest on obligations secured by mortgages, and certain gains on the sales of property.

The 95% Test. In addition to deriving Seventy-Five Percent (75%) of its gross income from, among other things, the sources listed above, at least Ninety-Five Percent (95%) of a REIT's gross income for the taxable year must be derived from the above-described qualifying income, or from dividends, interest or gains from the sale or disposition of stock or other securities that are not dealer property ("**Dealer Property**").

Even if a REIT fails to satisfy one or both of the Seventy-Five Percent (75%) or the Ninety-Five Percent (95%) gross income tests for any taxable year, the REIT may still qualify as a REIT for the year if the REIT is entitled to relief under provisions of the Code. These relief provisions will generally be available if:

1. the failure to comply was due to reasonable cause and not due to willful neglect; and

2. following the REIT's identification of the failure, the REIT files a schedule with a description of each item of gross income that caused the failure in accordance with regulations prescribed by the U.S. Treasury.

If these relief provisions apply, however, the REIT would nonetheless be subject to a special tax upon the greater of the amount by which the REIT fails either the Seventy-Five Percent (75%) or Ninety-Five Percent (95%) gross income test for that year.

Annual Distribution Requirements.

To qualify as a REIT, a REIT is required to make distributions, other than capital gain dividends, to its shareholders each year in an amount at least equal to the sum of Ninety Percent (90%) of the REIT's taxable income, computed without regard to the dividends paid deduction and REIT net capital gain, plus Ninety Percent (90%) of the net income after tax, if any, from foreclosure property, minus the sum of some items of excess non-cash income. A REIT is permitted, with respect to undistributed net long-term capital gains it received during the taxable year, to designate in a notice mailed to shareholders within Sixty (60) days of the end of the taxable year, or in a notice mailed with its annual report for the taxable year, the amount of those gains that its shareholders are to include in their taxable income as long-term capital gains.

These distributions generally must be paid in the taxable year to which they relate, or in the following taxable year if declared before a REIT timely files its tax return for the year and if paid with or before the first regular dividend payment after such declaration (in order to avoid the Four Percent (4%) excise tax, such amounts must be paid by January 30). For distributions to be counted for this purpose and to give rise to a tax deduction by the REIT, they must not be "preferential dividends." A dividend is not a preferential dividend if it is pro rata among all outstanding shares of stock within a particular class and is in accordance with the preferences among different classes of stock as set forth in the REIT's governing documents.

To the extent a REIT distributes at least Ninety Percent (90%), but less than One Hundred Percent (100%), of its "REIT taxable income," as adjusted, it will be subject to tax at ordinary corporate tax rates on the retained portion. A REIT may elect to retain, rather than distribute, its net long-term capital gains and pay tax on those gains. In this case, the REIT could elect to have its owners include their proportionate share of undistributed long-term capital gains in income and receive a corresponding credit for their share of the tax paid by the REIT. The holders of interests in the REIT would then increase the adjusted basis of their interests by the difference between the designated amounts of capital gains from the REIT that they include in their taxable income and the tax paid on their behalf by the REIT with respect to that income.

To the extent a REIT has available net operating losses carried forward from prior tax years, those losses may, in part, reduce the amount of distributions that it must take to comply with the REIT distribution requirements. However, those losses will generally not affect the character, in the hands of stockholders, of

any distributions that are actually made by the REIT, which are generally taxable to stockholders to the extent the REIT has current or accumulated earnings and profits.

It is possible a REIT, from time to time, may not have sufficient cash to meet the distribution requirement due to timing differences between (i) the actual receipt of cash, including receipt of distributions from its subsidiaries, and (ii) the inclusion of items in income by the REIT for U.S. federal income tax purposes. If such timing differences occur, then to meet the distribution requirement might require short-term, or possibly long-term, borrowings, or to pay dividends in the form of taxable in-kind distributions of property, subject to the restrictions contained in the REIT's governing documents. If a REIT fails to meet the Ninety Percent (90%) distribution requirement as a result of an adjustment to its tax returns by the Service, the REIT may retroactively cure the failure by paying a "deficiency dividend," plus applicable penalties and interest, within a specified period.

In addition to the distributions necessary to maintain REIT status, if a REIT should fail to distribute during each calendar year at least the sum of (i) Eighty-Five Percent (85%) of its REIT ordinary income for such year, (ii) Ninety-Five Percent (95%) of its REIT capital gain net income for such year and (iii) any undistributed taxable income from prior periods, it would be subject to a Four Percent (4%) excise tax on the excess of such required distribution over the sum of (a) the amounts actually distributed and (b) the amounts of income retained on which it has paid corporate income tax.

Prohibited Transactions.

Net income derived from a prohibited transaction is subject to a One Hundred Percent (100%) excise tax. The term "prohibited transaction" generally includes a sale or other disposition of property (other than foreclosure property) that is held primarily for sale to customers in the ordinary course of a trade or business (or Dealer Property). The Fund intends to conduct the operations of a REIT so that no asset owned by such REIT or its pass-through subsidiaries will be held for sale to customers and that a sale of any such asset will not be in the ordinary course of such REIT's business. Whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the particular facts and circumstances. No assurance can be given that any property sold by any REIT will not be treated as property held for sale to customers or that any REIT can comply with certain safe harbor provisions of the Code that would prevent the imposition of the One Hundred Percent (100%) excise tax. The One Hundred Percent (100%) tax does not apply to gains from the sale of property that is held through a taxable REIT Subsidiary or other taxable corporation, although that income will be subject to tax in the hands of that corporation at regular corporate tax rates.

Foreclosure Property.

Foreclosure property is real property and any personal property incident to the real property (i) that is acquired by a REIT as the result of the REIT having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after there was a default (or default was imminent) on a lease of the property or a mortgage loan held by the REIT and secured by the property, (ii) for which the related loan or lease was acquired by the REIT at a time when default was not imminent or anticipated, and (iii) for which the REIT makes a proper election to treat the property as foreclosure property. REITs generally are subject to tax at the maximum corporate rate (Currently Twenty-One Percent (21%)) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the Seventy-Five Percent (75%) gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the One Hundred Percent (100%) excise tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or Dealer Property in the hands of the selling REIT.

The Fund anticipates that its REITs, if any, will not receive any income from foreclosure property that is not qualifying income for purposes of the Seventy-Five Percent (75%) gross income test; but, if any REIT receives any such income, it intends to make an election to treat the related property as foreclosure property.

Failure to Qualify.

If a REIT fails to qualify for taxation as a REIT in any taxable year and relief provisions do not apply, it will be subject to tax on its taxable income at regular corporate rates. Distributions to the Fund in any year in which a REIT fails to qualify as a REIT will not be deductible by such REIT, nor generally will distributions be required to be made by such REIT under the Code. In that event, to the extent of current and accumulated earnings and profits, all distributions to the Fund from such REIT will be taxable as ordinary income to the Members. Unless entitled to relief under specific statutory provisions, a REIT will also be disqualified from reelecting taxation as a REIT for the Four (4) taxable years following the year during which REIT qualification was lost.

If a REIT fails to satisfy one or more requirements for REIT qualification, other than the gross income and assets tests, each of which is subject to the cure provisions discussed above, the REIT may retain its status as a REIT if:

1. the failure to qualify was due to reasonable cause and not due to willful neglect; and

2. the REIT pays, in accordance with regulations prescribed by the U.S. Treasury and in the same manner as tax, a penalty of Fifty Thousand Dollars ($50,000) for each failure due to reasonable cause and not due to willful neglect.

Investments in Taxable REIT Subsidiaries.

A REIT and a taxable REIT Subsidiary must make a joint election for the taxable REIT Subsidiary to be treated as a taxable REIT Subsidiary of the REIT. The taxable REIT will pay U.S. federal and state income taxes at the full applicable corporate rates on its taxable income before payment of any dividends. To the extent that the taxable REIT is required to pay U.S. federal, state or local taxes, the cash available for distribution to a REIT will be reduced accordingly.

Taxable REIT Subsidiaries are subject to full corporate level taxation on their earnings, but are permitted to engage in certain types of activities which cannot be performed directly by REITs without jeopardizing their REIT status. Taxable REIT Subsidiaries are subject to limitations on the deductibility of payments made to the associated REIT, which could materially increase the taxable income of the taxable REIT Subsidiaries and are subject to prohibited transaction taxes on certain other payments made to the associated REIT. A REIT will be subject to a tax of One Hundred Percent (100%) on the amount of any rents from real property, deductions or excess interest paid by a taxable REIT that would be reduced through reapportionment under Code Section 482 to more clearly reflect income of the taxable REIT Subsidiary.

Under the taxable REIT Subsidiary provisions, a REIT and any entity treated as a corporation for U.S. federal income tax purposes in which the REIT owns an interest are allowed to jointly elect to treat such entity as a taxable REIT Subsidiary. In addition, if a taxable REIT Subsidiary of the REIT owns, directly or indirectly, interests representing more than Thirty-Five Percent (35%) of the vote or value of an entity treated as a corporation for tax purposes, then that subsidiary will also be treated as a taxable REIT Subsidiary of the REIT. As described above, it is intended that a taxable REIT Subsidiary election will be made for any taxable REIT Subsidiary utilized.

U.S. Federal Income Tax Audits and Resulting Liabilities

A partnership (including the Fund) appoints One (1) person (the Partnership Representative) to act on its behalf in connection with IRS audits and related proceedings. The Partnership Representative's actions, including the Partnership Representative's agreement to adjustments of the Fund's income in settlement of an IRS audit of the Fund, will bind all Members. Pursuant to the Operating Agreement, the Manager or its delegate will be designated as the Partnership Representative, and Members are required, if necessary, to consent to such designation.

In addition, U.S. federal income taxes (and any related interest and penalties) attributable to an adjustment to the Fund's income following an IRS audit or judicial proceeding will, absent an election by the Fund to the contrary, have to be paid by the Fund in the year during which the audit or other proceeding is resolved, if such adjustment results in an increase in U.S. federal income tax liability. If an adjustment to the Fund's income following an IRS audit or judicial proceeding results in a reduction in U.S. federal income tax liability, the adjustment will flow through to the Members based on their interests for the year in which the audit or other proceeding is resolved. This could cause the economic burden of U.S. federal income tax liability (or the economic benefit of a favorable adjustment) arising from an audit of the Fund to be borne by (or, in the case of a favorable adjustment, to benefit) Members based on their interests in the Fund in the year during which the audit or other proceeding is resolved, even though such tax liability (or benefit) is attributable to an earlier taxable year in which the interests or identity of some or all of the Members was different. The partnership tax audit rules can also cause the Fund's U.S. federal income tax liability arising from an audit to be computed in less advantageous ways than the tax liability of the Members would be computed if the Fund had not been audited (for example, by applying the highest marginal U.S. federal income tax rates and potentially ignoring the tax-exempt status of certain Members). In calculating taxes imposed on the Fund with respect to audit adjustments, the Fund may be able to consider certain applicable lower tax rates and the tax-exempt status of certain Members, which may require Members to provide certain information to the Fund (possibly including information about the owners of Members classified as partnerships). In addition, if elected by the Partnership Representative, alternative procedures may allow the Fund to avoid such entity-level U.S. federal income tax liability in some cases if certain conditions are satisfied. These alternative procedures may require Members (based on their interests in the Fund in the prior tax year under audit) to either file amended returns and pay any tax that would be due for the prior tax year under audit, or adjust the tax liability reported on their income tax returns for the year in which the audit is resolved.

Any U.S. federal income taxes (and any related interest and penalties) paid by the Fund in respect of IRS audit adjustments at the Fund level will be allocated by the Manager to, and will be borne by, the Members pursuant to the terms of the Operating Agreement.