CONFIDENTIAL

OPERATIONS AND CONTROLS PROCEDURES

FAIRWAY AMERICA MANAGEMENT
GROUP II LLC

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Introduction

Welcome to the Operations and Controls Procedures manual (the "OCP") that Fairway America Management Group II LLC ("FAMG II" or the "Manager") has created for the funds it manages (the "Fairway Funds", "Funds", or each, a "Fund") The purpose of this document is to set forth in writing certain Fairway America, LLC ("Fairway") and FAMG II policies, procedures, guidelines, and methodologies to help Investors understand how the Fairway Funds are governed and managed. As the Funds' Manager (in Funds that are limited partnerships, FAMG II is their General Partner, however, FAMG II will be referred to as "Manager" for the sake of simplicity in this OCP) FAMG II has committed in the PPMs and Operating Agreements to create and maintain this OCP throughout the life of the Fairway Funds and to make it available to Investors.

Any Procedure in this OCP may be edited, altered, modified or updated by FAMG II in its sole discretion throughout the lives of the Funds. FAMG II will make the most current version of the OCP available to Investors upon request. All capitalized terms not defined herein shall have the meanings given to them in the Funds' Operating Agreements, the PPMs, or other offering documents or documents created by the Fund or the Manager.

We hope this OCP helps Investors understand the seriousness with which FAMG II takes its responsibility as Manager of the Fairway Funds and steward of their money. It is our goal to make the Fairway Funds first class alternative investment vehicles and to continually earn Investor confidence through a strong commitment to good Fund governance, transparency, and communication.

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Controls Environment

Fairway, which provides employees, systems, and other resources to FAMG II for management of the Fund, is committed to continually developing and practicing well-thought out, thorough, and intelligent procedures to help mitigate risk in its internal financial practices. These policies and procedures have taken shape over the past 20 years and are set forth in the following pages.

External Controls

<u>Custody of Assets</u>

At the end of 2016, the Fairway Funds transferred custody of their Assets to a third-party custodian, currently Forge Trust Company (www.forgetrust.com).

New Investments

FAMG II has contracted with Fairway America Investment Advisors, LLC ("FAIA") to provide investment advice to the Funds. FAIA is an investment advisor registered with the United States Securities and Exchange Commission. FAIA does not provide any retail investment advice; its only clients are the Fairway Funds. For more information about FAIA and the investment advice services it performs for the Funds, please see FAIA's most recent Form ADV, filed with the SEC and available from FAMG II upon request.

When FAIA's Investment Committee has approved a new investment, and the Fairway Funds are ready to make the investment, an Investment Authorization form is submitted to Forge Trust. This form includes the account number for the Fund in which the investment will be made from, the amount of the investment, the investment type, and wire instructions for the beneficiary. Once completed, the form is submitted to two authorized signatories (one to approve, and one to sign) via Docusign. Once the form is executed, it is forwarded to Forge Trust, along with copies of the signed investment documents. If the new investment is a Mortgage Loan or other type of promissory note, the original security documents are forwarded to Forge Trust to retain until the investment is paid off. Investor funds and distributions from the Funds' investment are typically sent directly to Forge Trust via wire, ACH or check, with the exception of payments from Mortgage Loans that are being serviced by Fairway. Loan payments are deposited into Fairway's client trust account, and the net payment amounts (less servicing fees and any other fees due Fairway) are remitted to Forge Trust, typically bi-monthly. Reconciliation reports from Fairway's loan servicing software program, currently The Mortgage Office ("TMO") are sent to Forge Trust monthly.

Expenses

Fund related expenses are controlled utilizing several methods. Specifically, budgeting and budget approval, expense approvals and audit oversight. Budgets are prepared annually and at regular intervals throughout the year. Those budgets are reviewed by the CFO for Fairway America and by the Manager of FAMG II. Fund related expenses are processed utilizing Expense Authorization forms. Those forms must be completed with the appropriate information about the requested expense. The form is then reviewed, approved and signed by two authorized signatories, and sent to Forge Trust for processing along with a copy of the invoice. All Fairway Funds with assets over $10 million are audited annually by an outside accounting firm, currently Armanino LLP.

Fund Administration

The Fairway Funds currently have executed contracts in place with Verivest LLC, an affiliate of Fairway, for fund administration, which include bank reconciliations, monthly and quarterly financial reports and statements, and other services.

Capital Raising

In November 2017, North Capital Private Securities Corporation ("North Capital"), a FINRA member broker-dealer, was engaged to provide broker-dealer services to the Fairway Funds. North Capital uses third party registered representatives or registered representatives employed by Fairway or Fairway America Capital Markets Group, LLC ("FACMG"), an affiliate of Fairway, to raise capital for the Fairway Funds.

As a result of the engagement with North Capital, investor subscription documents instruct investors to remit their funds for new investments directly to North Capital via wire. North Capital has a separate escrow account set up for each of the Fairway Funds where the investor funds are deposited until the investor has been approved by North Capital for suitability and accreditation. Once the investor is approved, FACMG instructs North Capital to wire the investor funds to the respective Fund's account at Forge Trust.

Disaster Recovery and Business Continuation Plan

Fairway and FAMG II have developed procedures that will be followed in the event of any disaster affecting operations. By thinking through this possibility in advance and developing various steps our people would take, we believe we can reduce the chances of a major disruption (or loss) of mission critical systems and information. Please see the Fairway America Investment Advisors, LLC Policies and Procedures Manual for Fairway's Disaster Recovery and Business Continuation Plan.

Orderly Liquidation Plan

As Manager of the Funds, FAMG II has created this Orderly Liquidation Plan (the "OLP") to guide its actions in the event that the Manager determines, in its sole discretion, that one of the Funds has reached a stage where it is necessary or advisable to wind that Fund down and liquidate its assets. This OLP can be edited, modified, revised or improved at any time throughout the life of the Fund by FAMG II or any subsequent Manager in its sole and absolute discretion.

The purpose of having a plan in advance of any potential situation requiring a decision by the Manager to proceed with liquidation is to increase the chances of recovery on each asset and therefore the portfolio as a whole. FAMG II believes that the creation, updating, and ongoing discussions of such a plan helps the Manager, the Investors, any advisors or potential subsequent Managers, and essentially anyone who may ever be involved in the management, investment, and/or oversight of the Funds, manage the Funds in the best interests of its Investors. It attempts to articulate the manner in which, in FAMG II's opinion, maximum recovery of investments could be made to the Investors in the event of a liquidation of one of the Funds.

Manager Liquidation Philosophy

Fairway, the main principal of FAMG II, has executed wind downs or closures of five previous funds. Market conditions were different for each of these previous funds, as were the strategies deployed to wind them down. The point to note is that Fairway has extensive experience under varying market conditions in the wind down and closure of real estate asset-based funds similar to the Funds.

In general, the Manager's primary objective during any liquidation will be to produce the best possible return both of each Investor's capital account and on each Investor's capital account, and to do so in that order (i.e. capital recovery first and return on that capital second). To do this, FAMG II will endeavor to produce the best outcome it can achieve on each individual asset, which then likely produces the best outcome for the Fund as a whole.

The primary means to achieve the above objective is to be patient and not operate under duress. It is widely known that when one is forced to sell something quickly, one's chances of getting the best price are reduced dramatically. In fact, usually this forced, or "fire sale" scenario results in the worst possible outcome in terms of price. It is the Manager's goal to never be (or at least to never appear to be from a potential buyer's perspective) in a forced sale position. Avoiding this situation helps provide leverage in any negotiations and almost always results in improved prices for the sale of assets.

Liquidation Goals

In the event of a wind down or liquidation of the Fund, the specific objectives are as follows, and in the following order:

- Maximize the value and recovery of each individual Asset rather than attempt to achieve maximum speed of recovery.

- Maximize cash flow from each Asset whenever possible during any period in which the Manager feels the Asset is better to be held rather than to be liquidated under unfavorable conditions and/or at an unfavorable price.

- Achieve liquidation of each Asset as quickly as is practicable without compromising the primary goals. The Manager will avoid holding onto Fund Assets simply for the sake of holding onto them if it can obtain a reasonable market price (especially one equal to or greater than the book value of the Asset) given the then current market conditions.

- Maintain cash-flowing assets during wind-down period so long as the market to liquidate those cash-flowing assets remains strong (more particularly pertinent to loans and fund investments).

- The combined goal is to recover the maximum amount of principal first, and then interest or income to the Investors.

Action Steps

When a decision has been made to wind down a Fund, the Manager expects to take the following steps to liquidate the Fund Assets in an orderly manner, with due consideration given to timeliness, but which consideration is always subordinate to the goal of maximizing the return of principal to the Fund and the Investors:

i. Analyze each Asset in the Fund's portfolio in order to determine the various possible exit strategies for each Asset. See Exit Strategies below.

ii. Hold regular meetings (typically monthly, or more frequently if deemed necessary) (the "Portfolio Meeting") with appropriate employees (and other parties as necessary, such as realtors, appraisers, inspectors, etc.) to discuss the then current status and progress on each Asset. During these meetings, individual Asset performance will be reviewed and various exit strategies discussed. At the Portfolio Meetings on an ongoing basis, the Manager will continually evaluate and re-evaluate each Asset to determine if and when a different course of action needs to be considered. Focus and attention will be given to those Assets that are most pressing, need the most immediate attention, have performance issues or challenges, or otherwise are most impactful to the overall performance of that Fund's portfolio.

iii. During the winddown, the manager will actively pursue various exit strategies discussed during the regular meetings to determine which will be most effective.

iv. Communicate regularly with Investors in writing as to progress on the Fund as a whole and specifically provide an overview of performance on the Assets. Encourage Investors to call with any questions or concerns to help demonstrate our openness and transparency on Fund and Asset level performance.

Potential Exit Strategies for Mortgage Loans

There are various possible exit strategies for any given Mortgage Loan during liquidation. These may be executed independently or in combination and may change with changing circumstances. Potential exit strategies may include:

- <u>Selling a Mortgage Loan</u>. This is a particularly viable strategy if the Mortgage Loan is performing, has equity remaining, and will command a sales price at, or near, face value. Through Fairway's extensive activities in the marketplace in this arena, we maintain a database of and are exposed to viable third party note purchasers that may be willing to pay face value for solid, performing Mortgage Loans.

- <u>Locating another lender to refinance a Mortgage Loan, particularly at or close to maturity</u>. If the Mortgage Loan was close to being "bankable" at the time it was originated or acquired, or is believed to potentially be bankable at the time of liquidation, the Manager may contact the Borrower for updated financial and property information to see if the Mortgage Loan can be refinanced. This strategy may contain a benefit for the Borrower if the terms/rates are more favorable (which is important to elicit cooperation), and also helps enable that Fund to potentially recover fully on its investment. The Manager is active in this space as part of its ongoing business operations and thus is familiar with many private money and conventional lenders it can call upon to try to get the Mortgage Loan refinanced.

- Keeping a Mortgage Loan on the books for some period of time. In cases where there is little to no equity in a property and/or in other circumstances, it may be possible that exit strategies are limited without taking potentially significant losses to dispose of a Mortgage Loan. There are likely to be occasions where disposing of the Mortgage Loan at a loss are the best or only reasonable course of action. However, there may also be situations where the best interest of the Fund is to retain a Mortgage Loan on the books if it is generating a reasonable return to the Fund in the form of loan payments from borrowers or rents from tenants and a more favorable exit may be reasonably forecasted or expected at some future point in time.

- Foreclosing on a Mortgage Loan. The Manager will consider this option if and when a Mortgage Loan is non-performing and/or matured, and the Borrower is not taking the necessary steps to sell, refinance, or otherwise deal effectively with its obligations on a Mortgage Loan. This option may include negotiating a Non-Merger Deed In lieu of Foreclosure from the Borrower. Whether via a Non-Merger Deed in Lieu, or a judicial or non-judicial foreclosure, this strategy enables the Manger to gain control of an Asset as REO (Real Estate Owned), and either dispose of it, retain it for some period of time to repair, rehab, or rent it, or otherwise take actions to improve the recovery of the Asset. If the Manager chooses to foreclose judicially, the Fund may obtain a deficiency judgment against the Borrower for any shortfall of recovery on the Asset. This option will likely be a last resort, and the manager would likely consider selling at a slight loss as a superior option to foreclosure.

Potential Exit Strategies for direct real estate owned

Typically, when the Fairway Funds acquire a property, they acquire it in connection with a known Sponsor who manages the day-to-day operations of the property. In this scenario, the Manager does not have complete control over deciding when to sell a property, and the Sponsor may or may not be sensitive to the fact that the Fairway Funds are attempting to liquidate Assets. The Manager would have several strategies to consider in this scenario:

- Sell the property to another fund vehicle.

- Negotiate with the Sponsor to sell the property so that the Funds can realize their share of the profits from the sale. This is typically the best-case scenario if the Sponsor is agreeable and if market conditions are right.

- Negotiate with the Sponsor to purchase the Funds' ownership interest in the property.

- Negotiate with other investors in the deal to purchase the Funds' ownership interest in the property.

Investments in other funds

In a wind down scenario, the Manager will put in redemption requests on behalf of the Fund to redeem the membership or LP units it owns in other funds. Depending on the lockup period of a particular fund, the Fund may or may not have to pay a penalty for redeeming its units. In the case of a debt investment in a fund, the Manager may elect to wait until the Fund's note matures to avoid paying a penalty for early repayment, if that is determined to be in the best interest of the Fund. Another strategy the Manager may consider is selling the Fund's units or note to another accredited investor, if such a transfer is permitted by that particular fund. The manager may also determine it is appropriate to sell the Fund's units to another Fairway America fund vehicle.

Potential exit strategies may vary significantly from one Asset to another and from one-time period to another on the same Asset. There are a multitude of factors to be considered on any given Asset when attempting to determine the best course of action that are ever evolving and not always easily ascertained or understood. It is precisely this ambiguity that necessitates the expertise of an experienced Manager to attempt to negotiate a course of action that can provide a strong recovery of capital as frequently as possible. For these and other reasons, the Manager shall retain complete, absolute and total authority and discretion as to its course of action on any given Asset.

Stated Value Methodology

Units Owned in Other Funds

It is expected that the Funds will only invest in other funds that meet FAMG II's and FAIA's underwriting criteria in situations where the Manager has very strong reason to believe in the quality of that fund's manager. This may be the case when such a fund and/or its manager has an extensive track record of success and is clearly committed to similar standards of governance, transparency and communication as is the Funds.

The Stated Value of units owned in other funds will typically be calculated by using the then prevailing share price of its units (multiplied by the number of units owned) as provided to FAMG II by such other fund's manager. FAMG II will seek to obtain information concerning the fund's investments from the manager(s) of such funds on an ongoing basis to help verify the reasonableness of any figures provided.

The Funds and FAMG II also reserve the right to determine their own opinions of the overall value of the assets owned by the other funds if, in the sole discretion of the Manager, there appears to be any discrepancy between the values provided by the underlying fund's manager and the Manager's opinion. If the underlying fund is closed ended and has an accrued but unpaid preferred return, the Funds will typically reflect this accrued but unpaid preferred return into the Stated Value of such assets as long as the Manager believes that the underlying fund is on target to achieve at least this amount. If the closed-ended fund's preferred return has already been fully paid out and/or capital has been fully returned, the Manager may consider reflecting projected future EDC gains in its calculation of the fund's value, again as long as the Manager believes the underlying fund will pay out this EDC at a later time.

To determine the Funds' and FAMG II's opinion of the overall value of the assets owned by the other funds, the Manager will utilize certain methods for each of the other funds' strategies. For certain strategies, the value of the fund will be calculated by taking the unpaid principal balance of each Mortgage Loan in the other fund, plus accrued interest, less an estimate of the other funds expenses. For strategies having real property assets, the Manager will utilize the valuation methods described in the Real Property section below.

Mortgage Loans

The Stated Value of Mortgage Loans will generally be calculated by taking the unpaid principal balance of each Mortgage Loan, plus any accrued but unpaid interest, as long as the Mortgage Loan is not believed to be impaired. If the Manager, in its sole discretion, feels a Loan is impaired, interest may cease to be accrued and/or the Loan may be marked down based on data from readily available sources, which may include, but are not limited to, the following:

- Comparable sales from sources such as LoopNet, Costar, RMLS, and other market specific data sources;
- Manager's inspection of the property;
- Feedback from market participants including owners, appraisers and real estate agents;
- Current net operating income being produced by the property, divided by a market capitalization rate;
- Estimated sales price of the underlying real estate if marketed with a normal sales process;
- And other reasonable market approaches.

Upon determination of the Manager's opinion of property value, the Manager will typically deduct an appropriate percentage from that value for anticipated closing costs, commissions, and/or other disposition expenses. This percentage will typically be in the range of 6-10% of the estimated value of the property but may vary depending on individual circumstances.

In the case of a fractional interest, or Participation, in a Mortgage Loan, the above calculation shall be used and multiplied by the Fund's percentage of ownership, and may also include a discount for minority interest if the situation warrants, in the sole discretion of the Manager.

Real Property

The Stated Value of a Fund's interest in real property acquired either through direct acquisition, participation in a joint venture or partnership, via foreclosure, deed in lieu of foreclosure, or otherwise, shall be calculated by using the Cost Basis for the first quarter of ownership, at a minimum, unless the Manager believes the Asset to be impaired in which case it would be marked down as described in the valuation of impaired mortgage loans. In order to mark up the Stated Value of a property, the Manager would have to believe, in its sole discretion, that there is a compelling reason the value of the property has increased since the time of acquisition. This could happen for a variety of reasons, including but not limited to:

- Improvements have been performed on the property to clearly increase its value.
- The property was vacant or partially vacant at acquisition and is now leased and generating income which would substantiate increased value based on accepted market value determinants (e.g. capitalization rates, etc.).
- Market conditions have improved substantially, noticeably, and verifiably through clear market data (e.g. comparable sales, capitalization rates, etc.).

Starting with the second quarter of ownership, the methodology for determining whether the Stated Value of a real property has increased at the end of each quarter will consider Cost Basis, Sales Comparable, Direct Capitalization, and Discounted Capitalization methods of valuation.

- The Cost Basis method will evaluate and consider the costs incurred between the time of each asset's acquisition and the end of each quarter.

- The Sales Comparable method will take into consideration any pending contracts for sale of the property. This will be the most heavily relied upon valuation method when an asset is under contract to sell. This method, in conjunction with the cost method, will be the most heavily relied upon methods for non-income producing assets.

- The Direct Capitalization method will consider the overall increase in net operating income between the time of an asset's acquisition and the end of each quarter. Direct Capitalization of the net operating income will be the predominant valuation method for stabilized income producing assets.

- The Discounted Capitalization method will determine a stabilized value for the property, then apply a discount to that stabilized value that is intended to account for the risks associated with the work remaining to be completed prior to stabilization. Each quarter thereafter, the discount will be reduced commensurately with the reduced risks as the property approaches stabilization.

- For investments that require repositioning of assets, the Manager will predominantly use the Cost Basis method and the Discounted Capitalization method, which consider the cost of the repositioning, timing to reposition the asset, and anticipated future value of the asset once repositioned.
    - The estimated market value upon repositioning will be based primarily upon sales comparables of similar assets and direct capitalization of the projected net operating income upon repositioning.
    - The estimated market value at any given time during the repositioning of the asset will be based on whether the asset is currently undergoing active construction, or if the asset is in the process of stabilization. During construction, the Cost Basis method will be applied, with consideration given to the contributing value of the capital expenditures between acquisition and construction completion. After construction is substantially complete, the Discounted Capitalization method

will be applied. Since sales of partially repositioned assets are relatively uncommon, the sales method will not be applied in most instances.

Similar to mortgage loans, upon determination of the Manager's opinion of property value, the Manager will typically deduct an appropriate percentage from that value for anticipated closing costs, commissions, and/or other disposition expenses. This percentage will typically be in the range of 5-10% of the estimated value of the property but may vary depending on individual circumstances.

In the case of a fractional interest, or Participation, in real property, the above calculations shall be used, multiplied by the Fund's percentage of ownership, and ran through the Participation's waterfall.

The manager may also consider marking down an asset from time to time, if determined necessary during the current quarter. This could happen for a few reasons, such as:

- One or more of the methodologies described above (Cost Basis, Sales Comparable, Direct Capitalization, or Discounted Capitalization) infers a value that is below the previous quarter's value for a given asset. In this case, the new value attributed to the asset would generally be the value inferred from the methodology chosen.

- Economic conditions have shifted and lowered the value of an asset or asset class as a result. While the Manager may choose to mark down the value using the Cost Basis, Sales Comparable, Direct Capitalization, or Discounted Capitalization method, if there is severe market disruption and these valuation methods are insufficient to produce a credible Stated Value, then national prices indexes (Green Street Commercial Property Price Index, Federal Reserve Bank of St Louis Commercial Real Estate Price Index, FTSE Nareit US Real Estate Index, etc.) may be utilized to infer a percentage-based adjustment. This percentage-based adjustment may be applied to a property sector, geographical region, or individual asset.

- The asset is considered impaired without any indication of recovering. In this case, impairment calculations would follow the same overall methodology as described for Mortgage Loans above.

Underwriting Manual

The following information provides an overview and summary of Fairway's, FAMG II's, and FAIA's overall underwriting parameters and guidelines. This manual is not intended to be all-encompassing or exhaustive but instead attempts to summarize and explain some of our primary philosophies, preferences, and guiding thought processes. Private money lending and investing is by its nature opportunistic, flexible, timing-driven, and competitive and each situation or opportunity is unique. Care in due diligence as well as creativity in underwriting must be applied to each situation and therefore there are few hard and fast rules. This document attempts to put into writing some of the ideas, concepts, and principles used by Fairway over its existence that will also be factored into FAMG II's or FAIA's decision making on behalf of the Fund. Except as specifically prohibited by the contents of any applicable PPM, Operating Agreement or other legal documents, we may modify, alter, edit, expand, contract, or otherwise change this Underwriting Manual, its contents and application of its contents, ideas and principles at any time in our sole and absolute discretion.

Overview of Fund Assets and Portfolio Strategy

The strategy of the Funds is to make a number of investments into other middle market real estate asset based 506 Regulation D funds with different structures and asset strategies, throughout the United States, as well as in individual real estate based assets as described in more detail below. The Funds will make investments in other real estate funds and may invest in both debt and equity positions and in both GP and LP interests in such funds. It is expected that the majority of investments will be made into LP shares and that the acquisition of GP shares will be less frequent, but shall represent an opportunity to boost returns and may be considered as frequently or infrequently as the Manager decides in its sole discretion.

The Funds expect to invest in multiple 506 Regulation D funds and single asset syndications with various and diverse strategies. Strategies may include, but will not be limited to, buy and hold, fix and flip, value-add repositioning, acquisition through auctions and foreclosures, tax lien certificates, distressed and/or performing note acquisition, and mortgage pool funds of varying strategies including bridge, construction, rehab, and permanent loans. Assets involved in the strategies of the to be invested into funds will include, but will not be limited to, single-family residences (non-owner occupied), multifamily, retail, industrial, office, warehouse, self-storage, land, medical office, assisted living, student housing, and more, as well as loans or other liens (such as tax liens) secured by such property. The value of these assets is expected to vary widely but be considered "middle market" in nature, generally from $10,000 to $50,000,000 or more. Sponsors, assets, and property are expected to be located mostly in metropolitan areas throughout the United States. The Funds will consider investing in funds based and operating outside the United States on a very infrequent basis.

Asset Types

Investments in 506 Regulation D Funds

The Funds, either directly or through special purpose vehicles, which will be subsidiary limited partnerships or limited liability companies owned by the Funds, (each a "SPV") will acquire LP or GP shares in or debt to 506 Regulation D funds, generally described as follows:

1. Equity or debt investments in various real estate asset based 506 Regulation D funds nationwide, including but not necessarily limited to real estate asset based funds with the following strategies and characteristics:
    - Mortgage pools

- Real estate “buy and hold” funds
- Real estate ”value-add” funds
- Fix and flip funds
- Discounted debt acquisition funds
- NPL (nonperforming loan) and PL (performing loan) funds
- Tax lien certificate funds
- Other real estate asset based strategies

2. The Funds will attempt to diversify by investing in funds with varying asset types and structures (all real estate based), and varying geographic locations of assets.
3. Prospective fund investments and fund managers will be vetted through various means that may include background checks, investor references, financial statements, portfolio analysis, site visits, asset inspection and analysis, documentation quality, prior performance in their specific investment types, and other types of due diligence used to determine character, integrity, competency, fund asset quality, and suitability for an investment by the Funds. The degree and scope of due diligence performed on any given fund manager shall be in the sole discretion of the Manager.

The Manager believes that diversification is an important investment principle. A primary goal of the Funds will be to maintain a diverse portfolio of investments that pursues a variety of investment strategies amongst a range of real estate asset types and classes across a broad geographic range around the United States. As real estate markets cycle, the Manager may attempt to purposely grow or shrink positions in particular asset types, strategies, and geographies as necessary that may create varying degrees of diversification in any given category. The Manager shall maintain sole and absolute discretion over the combination of investments in 506 Regulation D funds in the Funds.

As mentioned previously, a goal of the Funds is to maintain a diverse portfolio of investments in 506 Regulation D Funds with a variety of investment strategies amongst a range of real estate asset types and classes across a broad geographic range around the United States. The Funds intend to be very selective when identifying a fund for a potential investment. Due diligence on each potential fund investment will typically include:

- A comprehensive review of the fund’s offering documents. In many cases, this eliminates funds from consideration due to factors including but not limited to: quality of the offering documents themselves, perceived lack of alignment between the manager and the fund, risk profile of assets being invested in, and returns projected.
- If the Manager still has interest after reviewing the documents, and also has some comfort level with the manager based on prior communication, an asset level tape is requested and analyzed. The Manager is looking for basic information on the fund’s assets, including but not limited to: average asset size, asset type, asset location, loan to value and loan status for mortgage pool funds, etc. The Manager will compare what it can determine about the fund’s assets to the guidelines set forth in the fund’s offering documents.
- If the assets appear to meet the fund’s guidelines, and no red flags are raised initially, the Manager will send the manager a comprehensive due diligence checklist. The items requested on the checklist include documentation such as financials for the fund, the manager and its principals (audited financials preferred), marketing materials, investor presentations, copies of quarterly letters to investors, and other documentation. The documentation obtained for each fund will vary on a case-by-case basis. For example, a newly created fund will not have much of the documentation that is being requested. The Manager is more likely to consider an investment in a newly created fund if Fairway set up the fund or Verivest is currently engaged to administer it.
- The underlying assets are the single most important criteria in determining whether or not to invest in particular fund. As part of the due diligence process, the Manager will request a sampling (typically four to five) complete asset files. The Manager will analyze such factors as: adherence to fund guidelines, quality of property valuations, quality of borrower loan documents, and overall how well an asset file is

documented. With regards to mortgage pool funds that make loans with a construction or rehab component, the Manager will be analyzing the fund's policies and procedures for construction draws and inspections closely. The values concluded for the assets selected will be verified by the Manager to the best of its ability, which may include: review of appraisals, BPO's or other valuations provided for each particular asset, county records check for ownership, last deed of record, sales history, and property details (as available by county), online searches for the subject property and comparable sales through sources such as Zillow.

- All principals of the manager will be asked to complete Principal Questionnaires and sign Authorizations to Release Information. They are required to disclose any issues that may be of concern on the Principal Questionnaire. These issues include: prior bankruptcies, judgments, lawsuits, arrests, convictions, etc. Prior to making an investment, the Manager will run a background check on each principal. Any issues that come up on a Principal Questionnaire and/or background check will need to be addressed and explained by the principal to the satisfaction of the Manager before an investment will be considered. If there are issues that come up on a background check that were not disclosed on the Principal Questionnaire, typically the Manager will not consider an investment in that fund, unless the Manager can get comfortable with the situation after discussing it with the principal. Felony convictions, especially those related to fraud or other financial indiscretions, will generally not be acceptable.
- The Investment Committee meets on a regular basis to discuss the progress on any pending potential fund investments, and any issues encountered during the due diligence process are brought up at that time and discussed. When the Investment Committee feels there is enough information and documentation available on a particular fund investment, a decision is made amongst the group.
- The Manager intends to monitor its investments in other funds very carefully and will endeavor to review financials and asset tapes on a quarterly basis.

Investment in Real Estate Ownership

The Funds, either directly or through SPVs, will also invest in other real estate based assets generally described as follows:

- Direct ownership of real estate which will typically be acquired with qualified Sponsors throughout the United States. The Funds may invest in both GP and LP positions with other Sponsors.
- Often, any ownership interest the Funds may take in direct real estate (either solely or with a Sponsor) will have senior debt associated with it. The debt will be intended to reduce the required equity and increase the returns, but it may also increase risk and impact the timing and amount of any returns to investors in the Funds. See the "RISK FACTORS" section of each Fund's PPM for additional details.
- Equity positions will attempt to be structured to protect the Funds' downside risk as much as possible. Tactics to protect downside risk may include the Funds maintaining the rights and abilities to terminate the Sponsor (often limited to "cause"), having the Sponsor's capital in subordinate position, back-loading the Sponsor's profitability until the Funds have recouped their capital and profit, and/or other similar tactics. The Manager may or may not choose to deploy any given strategy on a particular investment in its sole discretion.
- The Funds expect to focus on Assets that are income producing or have an imminent ability to produce cash flow. Examples include, but are not limited to, the following property types:
    - Multifamily
    - Office buildings
    - Medical office buildings
    - Retail
    - Self-storage
    - Warehouse
    - Industrial
    - Assisted living/senior housing

    - Student housing
    - Single-family rental pools
- The Funds, either directly or via SPVs, may own property directly, invest in other entities which own the real estate, or participate in the ownership or real property in a variety of ways. There is no specific limitation on the manner in which the Funds may invest in real property or entities which own real property.

The first step involved is underwriting the Sponsor associated with the direct real estate investment. Fairway typically requests the following when considering an investment with a new potential Sponsor:

- Corporate filing documents and organizational chart for Sponsor company
- Bios on all principals of Sponsor company
- Principal Questionnaires for all principals (Fairway to provide)
- Background checks completed by Fairway for all principals
- If applicable, a list and brief description of all material lawsuits, arbitrations, and similar disputes filed against the Sponsor company of any of its affiliates and principals during the past 15 years.
- Copies of any presentations and any other marketing material presented to potential investors during the past 12 months.
- Spreadsheet that includes pertinent information on full cycle assets, including: property type, size, acquisition and disposition dates and prices, underwritten and actual deal level performance.
- Spreadsheet that includes pertinent information on any assets currently owned, including: property type, size, acquisition dates and prices, current occupancy and current value.
- Copies of any written underwriting checklists, manuals or guidelines utilized in guiding investment decisions.
- Sample monthly/quarterly reporting to investors.

Once a Sponsor has been approved by the Manager, it can then consider the investment opportunity being presented. Documentation typically requested about the project itself includes:

- Sponsor prepared financial model (FAMG II will typically prepare its own financial model, using Sponsor's as a starting point).
- Offering Memorandum or any other available marketing material about the property.
- Historical financials/operating statements for the property
- Current rent roll
- Copies of all leases
- Tenant sales figures, if available and applicable
- Executed Purchase Agreement
- Any third-party reports available (new lender will typically require new third-party reports, including appraisal, Phase 1, Property Condition Report, and preliminary title report)
- Term Sheet for proposed bank debt

Origination and Acquisition of Loans

The Funds, either directly or through SPVs, also expect to invest in loans secured by real estate ("Mortgage Loans") along with other types of loans described below.

Loans, including participation interests, with the following characteristics may be considered by the Funds:

- All loans will be for commercial or investment purposes only. No residential owner- occupied loans for personal or household use will be originated or acquired.
- All commercial and residential property types will be considered.
- The Funds will attempt to focus on well located, marketable, flexible, and desirable property in terms of its type, use, zoning, location, and submarket.
- First deed of trust lien positions on commercial and investment real estate. Subordinate lien positions are considered on a case-by-case basis.
- LTVs for Mortgage Loans will generally be 70% or less with an expected average of 65% or below. The Manager may make exceptions on a case-by-case basis in its judgment based on specific underwriting facts of the transaction.
- Loans will typically be interest only with a loan maturity (balloon payment) in the range of six months to five years.
- Personal guaranties from borrower(s) or principal(s) of borrowing entity will be required where available and appropriate.
- Mezzanine loans secured by a pledge of LLC membership interests (or unsecured in some cases if mezzanine financing is prohibited by the senior lender) will be considered on a case-by-case basis. Typically these types of loans will only be considered for projects one of Fairway's Funds or related entities has an equity interest in. Investment Committee will determine which Fund or Fund. s appropriate to make the loan, and any decision made will be documented in the conflicts log.
- Fairway's Funds may make loans to each other from time to time if the loan is a benefit to both parties. These loans are typically written at a 10% interest rate, and payable upon demand of the lender. Any interfund loans made will be documented in the conflicts log.

The Funds may find opportunities to consider buying an existing Mortgage Loan or Loans from private lenders, special servicers, trustees, banks, and/or other financial institutions. If possible, the Funds would attempt to acquire the Mortgage Loan(s) for less than face value, thereby increasing the expected yield to maturity. The Funds will also consider buying newly originated Mortgage Loans at prices up to par (that is 100% of unpaid principal balance), assuming they meet our underwriting guidelines and represent a good investment for the Fund. Existing Mortgage Loans, including participations in existing Mortgage Loans, with the following characteristics will be considered by the Fund:

- Individual Mortgage Loans or pools of Loans (both performing and nonperforming) that meet the Fund's general criteria.
- Those secured by commercial or investment real estate, typically in first lien position.
- 60% LTV (at time of purchase) or less typical.
- Believable and executable forbearance, workout, extension, or other exit strategy available for each Loan.

In general terms, the Funds would prefer to acquire Mortgage Loans where they have the opportunity to obtain current information (borrower financials, rent rolls, operating statements, valuations, etc.) to those which are dated. However, in situations where the LTV and collateral are, in the Manager's opinion, exceptional, the Funds would consider buying seasoned paper with varied performance histories.

The Funds typically lend to borrowers who do not meet traditional underwriting guidelines for income and credit, therefore, the most important factor in involved in the Manager's underwriting decision is having quality real estate as collateral. Using good quality, marketable, desirable property as collateral, attempting to accurately assessing its value, and lending a conservative percentage of that value (LTV) are the cornerstones of the Manager's lending and underwriting philosophy. The Manager may or may not obtain an independent appraisal of the collateral depending on a variety of factors including, but in no way limited to, whether we were provided with one performed previously, who performed that report, our opinion of its accuracy and merits, the location of the property, whether we feel confident enough to assess the value internally, our level of experience with and confidence in the referral source of the deal, etc. If we do decide to obtain an appraisal, the appraisal format and the appraiser's professional designations may vary. Whether we have ordered the appraisal or been provided one performed previously and ordered by another party, we will diligently review that report and come to our own conclusion of value, which figure shall be that which we use to determine LTV.

In many instances, rather than order an appraisal, we will choose to rely on the experience and expertise of the Sponsor, or the Manager, its principals and employees, and/or the referral source, as well as research derived from databases, opinions of other real estate professionals, drive-by inspections of comparable properties, and/or first-hand site walks, in determining the estimated value of the collateral. In fact, we usually will do some or all of these things even if we have ordered an independent report. Since formal appraisals are expensive and time consuming, in many cases we are able to close a Mortgage Loan or other Fund Asset with higher yields specifically because a formal appraisal is not required. When combined with the fact that we are going to do our own homework anyway, especially if the property is the type and/or is in a location with which we have extensive experience, we will produce our own internal property valuation as the final estimate. For these reasons, we reserve the right to determine the best method to determine the collateral value in our sole discretion.

An inability to document income in a manner that satisfies a bank's requirements is one of the main reasons people borrow from Fairway. Therefore, borrowers often do not "qualify" for our loans based on traditional debt coverage ratio ("DCR") and debt-to-income ratios. However, we believe there is a big difference between being able to document an ability to pay and actually having a strong ability to pay.

We generally ask for standard income documentation so as to be able to get a full picture of the situation. We view our responsibility as having to make a reasonable determination about our borrower's overall ability to pay, given the fact that we may have less than ideal income documentation. We feel there are many other factors that can help demonstrate a borrower's ability to pay, or lack thereof. A borrower's ability to pay is one of the main factors we use in determining the overall risk rating of a transaction (second only to the real estate itself).

Documentation Requirements

We will typically request the following income documentation to determine ability to pay:

1. Current Personal Financial Statement with complete schedule of real estate (dated within 60 days) for all borrowers and guarantors.
2. The most recent two years of tax returns for all borrowers, guarantors, and borrower/guarantor controlled entities.
3. If investment property: copies of all existing leases, current rent roll, and the most recent two years (plus YTD interim) income and expense statements.
4. Credit report for the borrower and/or guarantors. While we are less concerned with credit history than traditional lenders, we still typically obtain credit reports to get a better picture of the borrower's level of debt, and overall willingness to pay their obligations.

Fund Investment Committee

FAIA's Fund Investment Committee consists of five select employees of Fairway, which currently include the CEO, the CFO, the Managing Director of Real Estate Funds, the Senior Underwriter, and the General Counsel.

An affirmative vote of four of the five Fund Investment Committee members is required for approval. One of the four votes must be from the CEO. Upon approval, the Senior Underwriter prepares an Approval Memo that is saved in the appropriate file for the approved investment.