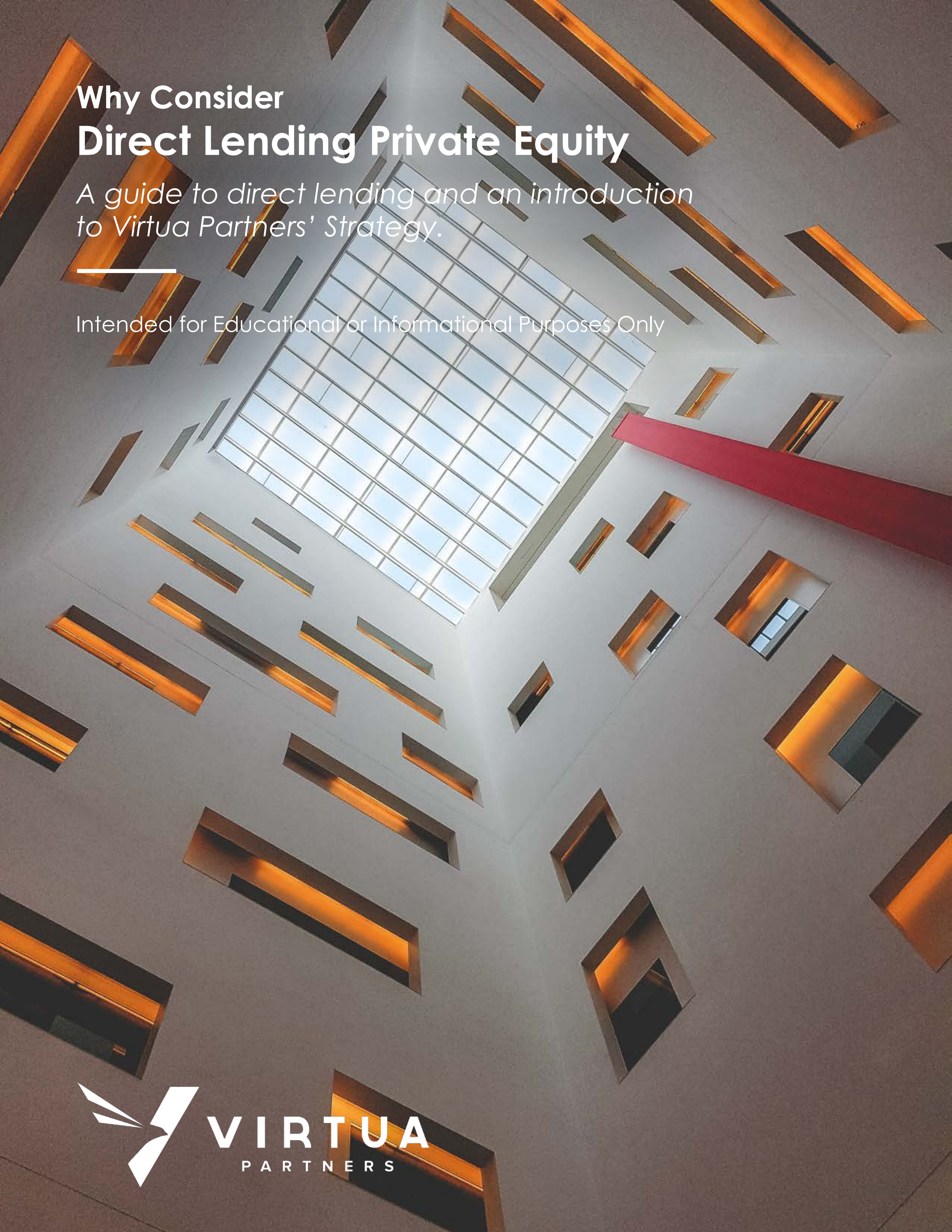

Why Consider
Direct Lending Private Equity

A guide to direct lending and an introduction to Virtua Partners' Strategy.

Intended for Educational or Informational Purposes Only

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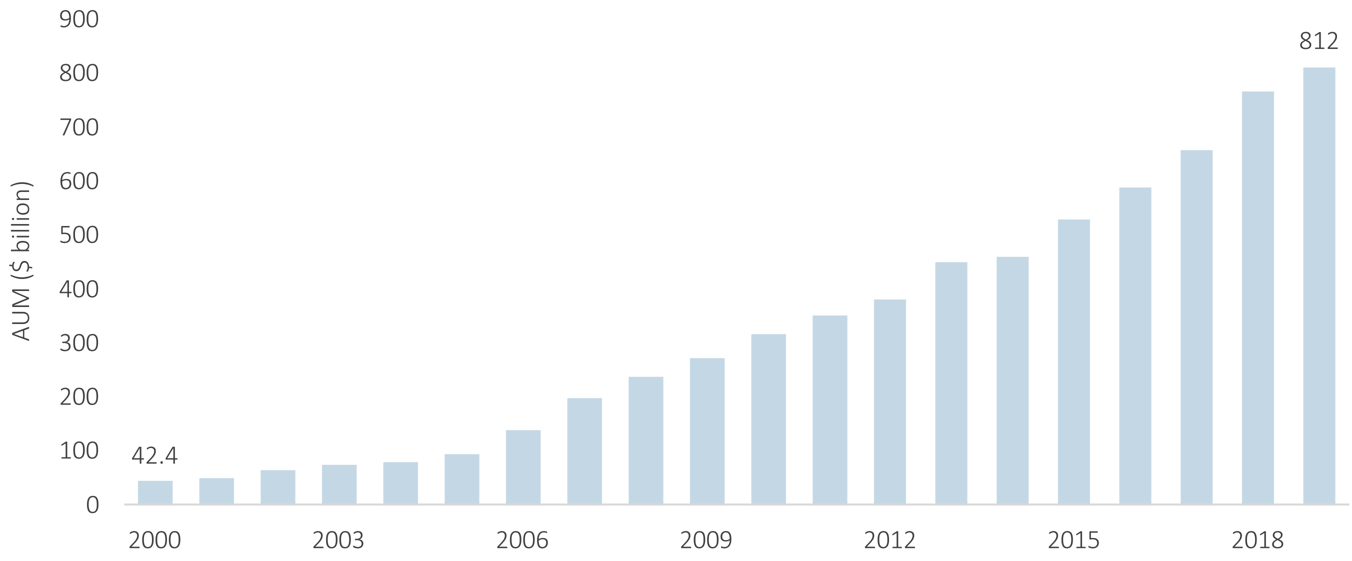
Direct Lending Basics

1.1 Direct Lending Strategy Basics

Direct lending funds are a subset of private credit or debt. Where traditional private market funds seek to raise investor capital for a slice of the asset's equity, direct lending seeks to pool capital to make loans.

Direct lending funds have grown in popularity as an alternative source of income, with global assets growing to over $800 billion as of December 2019.

Private Debt Assets Under Management[1]

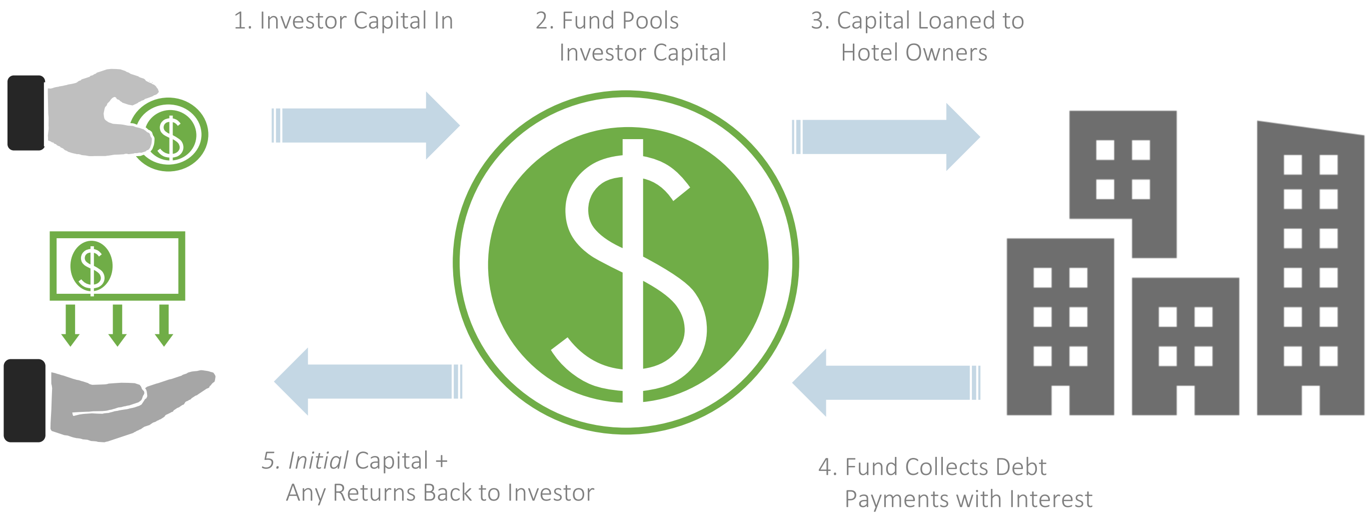


[1]Chart Source: Preqin, Bloomberg

Note: Information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. Investors cannot invest directly in the indexes referenced in this document. **Past performance is not an indication of future results.**

1.2 How Does Direct Lending Work?

1. After reviewing the subscription agreement and offering documents, **investors contribute capital** to the fund
2. The Private Equity manager (called the "Sponsor") aggregates the capital into the fund
3. The Sponsor **identifies opportunities to place financing**, using the pooled capital
4. The borrower makes interest payments to the direct lending Fund
5. The Fund **flows distributions back to the investors** at regular intervals



Note: There is no guarantee that Members will receive all or any part of their Accrued Annual Priority Returns or the return of their Unreturned Capital Contributions.

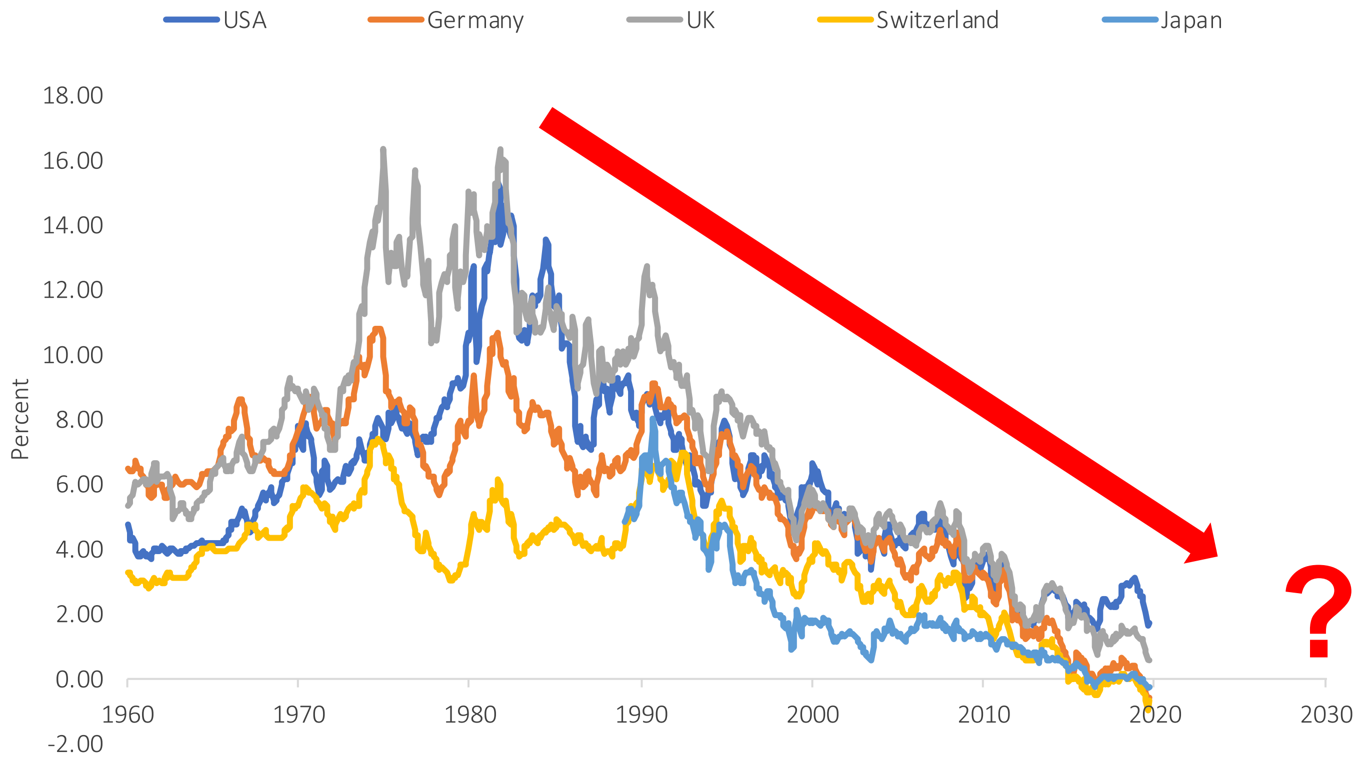
Why Consider A Direct Lending Strategy?

2.1 Government Yields Have Been Falling for 40 Years

A bond’s price is sensitive to changes in the prevailing benchmark interest rate. If the benchmark rate falls, yields on new and existing bonds fall in response.

Yields have been falling for 40 years. The current climate favors near-zero rates and currently shows no sign of reverting to historical norms.

Select 10-Year Government Bond Yields: Jan. 1, 1960 Through Sept. 30, 2019[2]



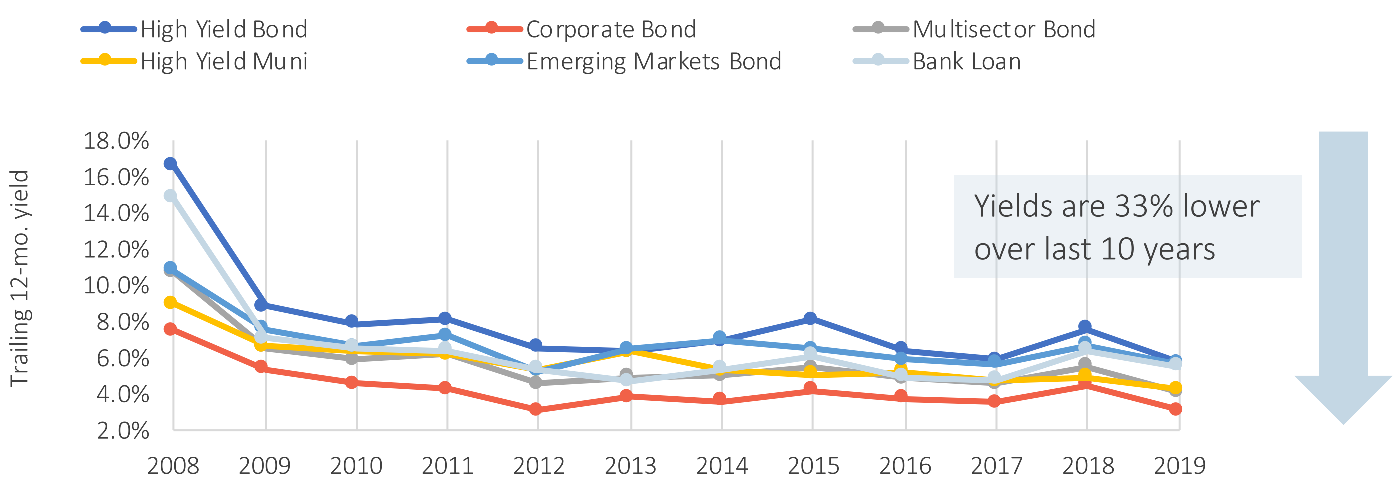
[2]Chart Source: Organization for Economic Cooperation and Development

Note: Performance information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. Investors cannot invest directly in the indexes referenced in this document. Past performance is not an indication of future results.

2.2 Bond Fund Yields are Low

Yields in bond mutual funds have dropped substantially following 2008's recession. Across the bond category, yields have fallen -33% over the last 10 years (2009-2019), with investment grade corporate bonds falling -42% **from 7.5% to just 3.1%**.

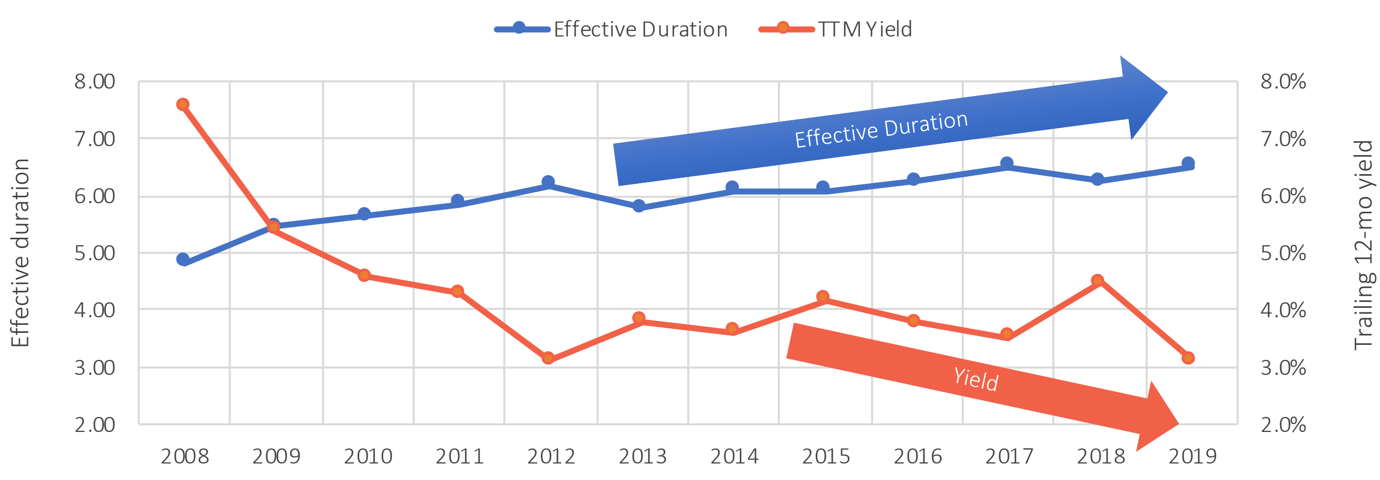
Trailing 12-Month Yield for Bond Mutual Fund Categories: 2008 – 2019[3]



2.3 Duration Risk Increasing

In stocks, we want to maximize our return at the lowest possible volatility. In bonds, we seek to maximize our yield for the lowest possible duration. Duration measures a **bond's sensitivity to a change in interest rates**. Historically, if a bond's duration is 1, that means the bond's value will drop -1% if interest rates rise by 1%. If a bond's duration is 5, the bond's value is expected to drop by -5% if interest rates rise by 1%. Bond managers are taking **more duration risk to generate less yield**.

Comparing Yield & Duration – Corporate Bond Mutual Funds: 2009-2019[4]



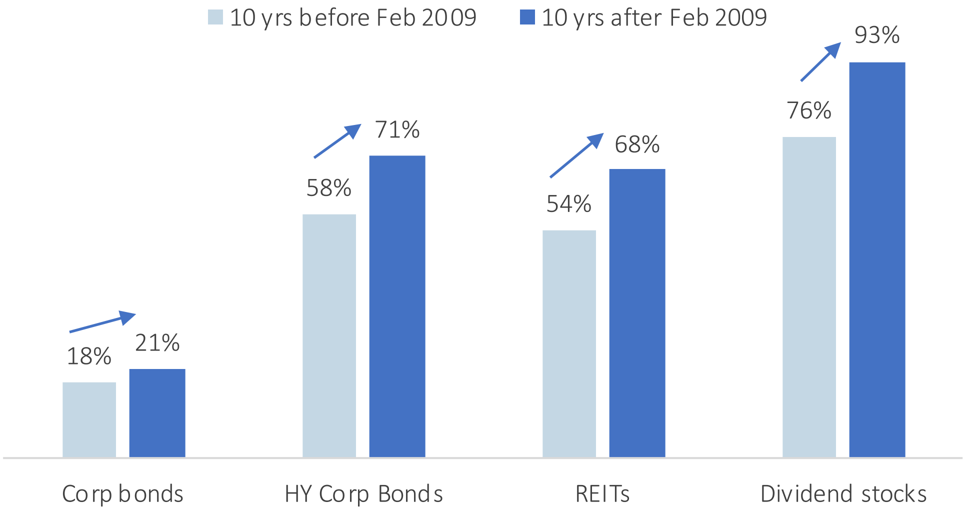
[3,4]Chart Source: Morningstar Direct

Note: Performance information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. All referenced bonds represent averages of the indicated mutual fund bond categories. Investors cannot invest directly in the indexes referenced in this document. Corporate bond mutual funds represent an average of all mutual funds in the Morningstar corporate bond category. **Past performance is not an indication of future results**.

2.4 Traditional Sources of Yield are Highly Correlated

The S&P 500 bottomed out in February 2009, falling -51% from its high. Following the crash, policymakers injected liquidity into the market and dropped interest rates to near zero. Subsequent actions by policymakers may have contributed to **traditional sources of income becoming more correlated to stocks**. Generally, we want our income-producing assets to bear little relationship to risky assets like stocks. Correlation is a statistical measure of the linear relationship between two assets.

Traditional Sources of Yield, Correlation to S&P 500[5]



2.5 Passive Strategies Offer No Risk Control Measures

Passive investments are increasingly popular. Passive investments track the performance of a benchmark index. These funds seek to own all assets included in the benchmark index and typically weight according to market cap. They tend to be very inexpensive.

Let's unpack the S&P 500 Index as an example. The S&P 500 tracks the stock price of largest 500 companies in the United States, weighted by the stock's market cap (current stock price multiplied by the number of outstanding shares). Let's say Microsoft's stock price costs $100 per share with 10 billion shares outstanding. That means Microsoft's market is 1 trillion. S&P calculates the market cap for all constituents and then weights the index from largest to smallest. Currently, Microsoft occupies the top spot in the S&P 500 at about 5% of the index.

[5]Chart Source: Morningstar Direct
Note: Performance information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. Investors cannot invest directly in the indexes referenced in this document. "Corp. bonds" are represented by the BbgBarc US Corporate Bond Index; "HY Corp Bonds" are represented by the BbgBarc US HY Corp Bond Index; "REITs" are represented by the FTSE NAREIT All-Equity REIT Index; "Dividend stocks" are represented by S&P 500 Dividend Aristocrats Index. Past performance is not an indication of future results.

Standard & Poor's (the publisher of the index) rebalances the constituents of the index annually, adding or subtracting company stock if they meet or fail to meet the index's selection criteria. This means **the index will include whichever stocks meet the selection methodology** and remove the rest. This means for every Microsoft, ExxonMobil, or Coca-Cola, **the S&P 500 has also included stocks like Enron, Radioshack, Sears, and Lehman Brothers**. Funds that passively benchmark to the S&P 500 will then own these stocks, based on what's included in the index.

The most widely used index for bond funds is the Bloomberg Barclays US Aggregate Bond Index, which tracks the performance of over 7,000 bonds, 14x as many instruments as the S&P 500. If you own bond funds in your portfolio, **do you really know what you own?**

Direct lending funds often take a focused approach to extend a few types of loans to a select group of borrowers. As a result, **direct lending funds may offer much higher degree of transparency than passively managed funds**.

Why Does This Matter?

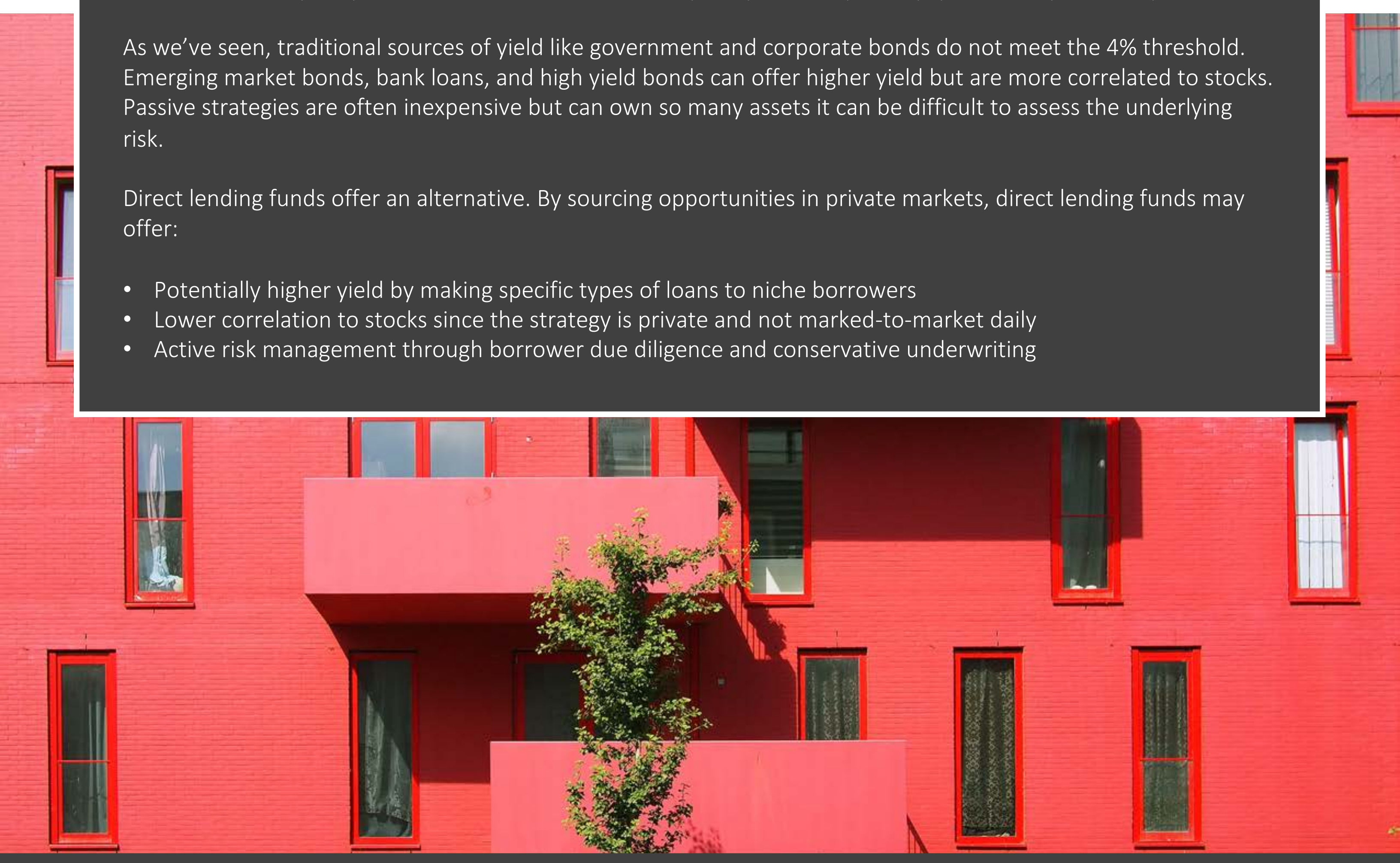
As we near retirement, it's generally prudent to reduce our portfolio's reliance on growth assets like stocks and increase our exposure to income-producing assets. Traditional sources of income include government bonds, corporate bonds and dividend paying stocks. In addition to producing income, these assets also provide diversification through low volatility and low correlation, historically.

There's something called the "4% rule" in the financial planning community. The 4% rule calls for investors to withdraw 4% or less from their retirement accounts each year to fund retirement spending. Staying under the 4% threshold means you spend interest earned rather than principal and, optimally, your money outlives you.

As we've seen, traditional sources of yield like government and corporate bonds do not meet the 4% threshold. Emerging market bonds, bank loans, and high yield bonds can offer higher yield but are more correlated to stocks. Passive strategies are often inexpensive but can own so many assets it can be difficult to assess the underlying risk.

Direct lending funds offer an alternative. By sourcing opportunities in private markets, direct lending funds may offer:

- Potentially higher yield by making specific types of loans to niche borrowers
- Lower correlation to stocks since the strategy is private and not marked-to-market daily
- Active risk management through borrower due diligence and conservative underwriting



Why Focus on Hotels?

3.1 Why Hotels?

Virtua’s direct lending strategy targets hotel owners seeking to renovate their existing properties, finance operational improvements, or develop new hotels. The strategy specifically targets Marriott & Hilton-brand hotels in the select-service category.

Why hotels?

- **Unmet demand:** select-service hotels expect to add 1.2 million new rooms in the next few years. Select-service hotels also feature lower cost to operate, which potentially means more stable cash flow. Fewer rooms simplifies renovation.
- **Higher interest rates:** lenders loan capital based on credit quality and cash flow. Hotel cash flows tend to be more volatile, which lead to higher interest rates and lower loan limits. Lower loan limits helps reduce risk while higher rates can improve yield.
- **Less competition:** hotel renovations can cost between $1 million and $8 million or more. Traditional lenders avoid making “small-balance” loans of less than $5 million as the fees earned do not justify the work to originate the loan. A direct lending fund can step in to meet this demand.

3.2 Which Hotels Are "Select-Service?"

Select-service hotels cater to corporate and budget-aware guests. These guests do not ask their hotels to feature premium amenities but are willing to pay for the availability of select services in addition to their room. These services are often part of their nightly rate, such as free wi-fi, complimentary breakfast buffets, and on-site gyms or swimming pools.

	Scale	Brand Examples	Room Count	% of Total	Avg. # Rooms Per Hotel
Full-Service Hotels	**Luxury**	Four Seasons, Ritz Carlton, JW Marriott	125,065	3.3%	318.2
	Upper Upscale	Marriott, Hilton, Hyatt, Sheraton	620,910	16.4%	332.6
Select-Service Hotels	**Upscale**	Courtyard, Hyatt Place, Hilton Garden Inn	790,995	20.9%	150.4
	Upper Midscale	Comfort Inn, Hampton Inn, Fairfield Inn	984,673	26.0%	97.6
Economy Hotels	**Midscale**	Quality Inn, Sleep Inn, Best Western	493,501	13.1%	83.2
	Economy	Econo Lodge, Super 8, Days Inn	766,227	20.3%	75.0
		TOTAL*	3,781,371	100.0%	176.2

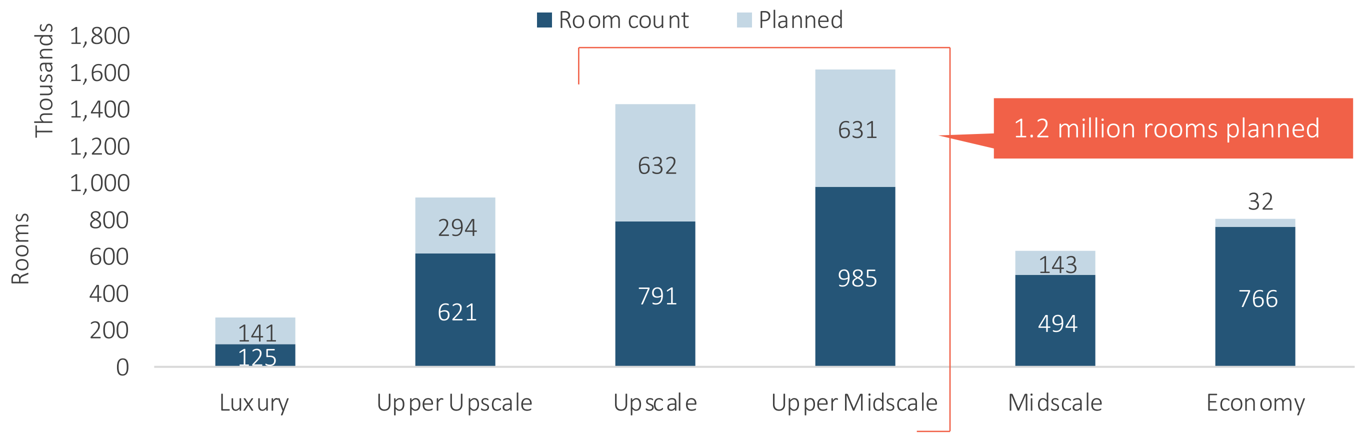
[6]Chart Source: Choice Hotels 2018 Annual Report; *Excludes independent hotels
Note: Information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. Investors cannot invest directly in the indexes referenced in this document. **Past performance is not an indication of future results**.

3.3 Unmet Demand

Domestic travel has increased from 1.9 billion domestic trips in 2009 to nearly 2.3 billion person-trips in 2018, a 21% increase and new high. Developers are rapidly developing hotels to keep up with the demand.

A direct lending strategy may be able to help developers secure financing to accelerate or complete construction.

North American Hotel Development Pipeline: As of Sep. 2019[7]

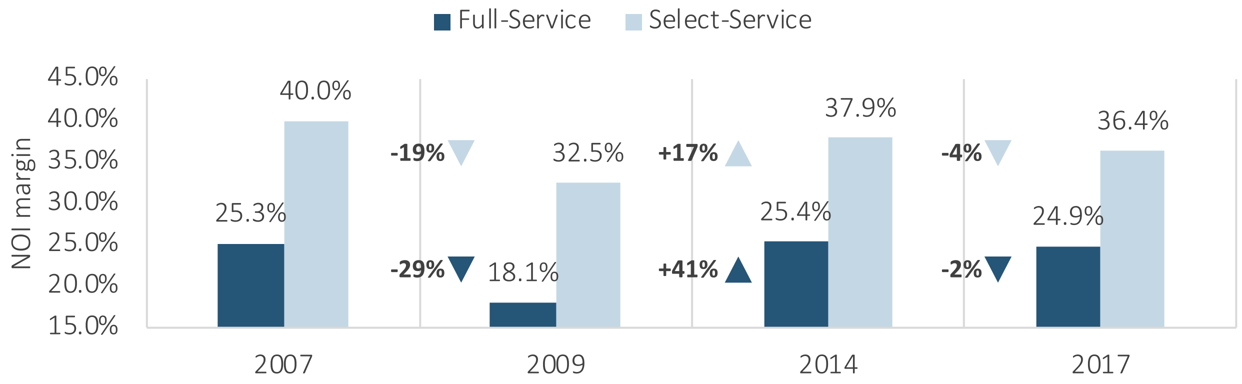


3.4 Historically Higher Credit Quality and More Stable Cash Flow

Virtua's strategy prefers Marriott & Hilton-branded select-service hotels because property cash flow tends to be more stable, historically, and credit quality tends to be higher due to affiliation with Marriott & Hilton.

Labor costs are the number one expense for a hotel. Select-service hotels have 124 rooms on average, 201 fewer rooms than full-service hotels. Fewer rooms means lower labor costs as less staff are needed to maintain the hotel. As a result, select-service hotels tend to see more stable earnings before taxes and interest (referred to as net operating income, or "NOI"). **Select-service's more stable NOI helps reduce default risk in the portfolio. This may help avoid interruption of debt service payments in the event the economy weakens**.

NOI Margin in Select Years by Service Level[8]



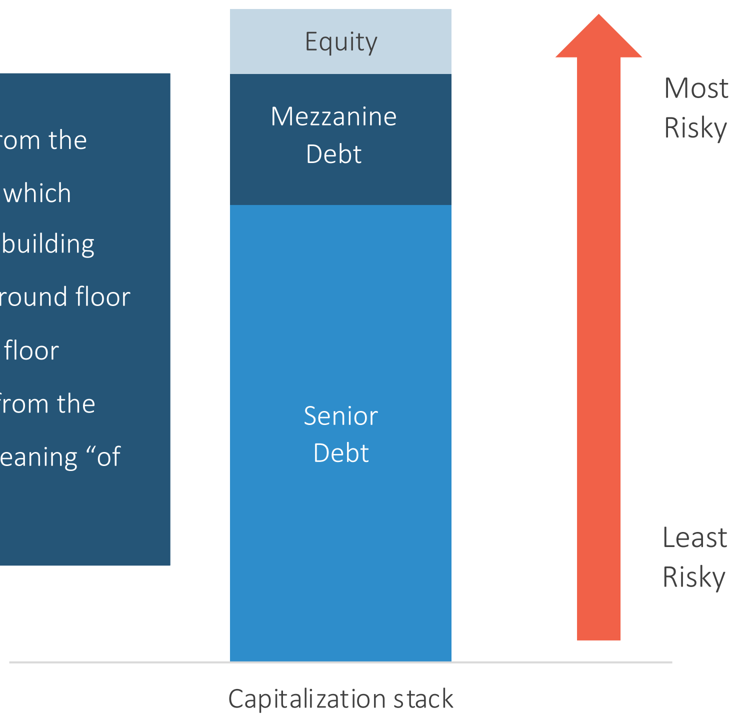
[7]Chart Source: STR
[8]Chart Source: HVS
Note: Information in this document was sourced from third party sources deemed to be accurate but is not guaranteed. Investors cannot invest directly in the indexes referenced in this document. **Past performance is not an indication of future results**.

3.5 Mezzanine Financing Strategy

Virtua's strategy principally originates mezzanine financing. In the capitalization stack, mezzanine financing sits beneath ("junior to") senior secured debt but above ("senior to") equity. Recall that senior debt holders are paid first, then unsecured or mezzanine debt holders, and finally equity shareholders. This means that mezzanine is riskier than senior secured debt, but less risky than the equity position. **As a result, mezzanine debt charges higher interest rates than senior debt**. A range of 10-25% is common.

Property Capitalization Stack (For Illustrative Purposes Only)

Mezzanine derives from the Italian "mezzanino," which refers to a story in a building that sits above the ground floor but beneath the top floor (mezzanino derives from the Latin "medianus," meaning "of the middle").



Investor distributions are based on the interest rate we can charge our borrowers to secure capital from our strategy. The strategy seeks to provide construction loans and bridge loans at competitive rates to hotel owners seeking to renovate, financing operational improvements, or complete ground-up development.

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3.6 Less Competition

The chain brands control a broad portfolio of sub-brands (referred to as “flags”). Each flag targets a specific customer demographic based on nightly rate and available amenities. The chains also set the brand standards franchisees must adhere to. This includes things like furniture and fixtures, associate uniforms, housekeeping standards, as well as the physical property.

The franchisee must adhere to the standards to keep the hotel in their portfolio. Chains have the power to obligate the franchisee to bring a property into compliance, called a property improvement plan (“PIP”). PIPs are also required if the hotel changes hands from one franchisee to another.

PIPs can cost anywhere from $10,000 per room to over $70,000 per room. If the average US select-service hotel has 124 rooms, then a **PIP can cost between $1 million to over $8 million**! On top of that, select-service PIPs are only valid for a set period time. It’s only a matter of time before the hotel needs to complete another PIP. This means that select-service hotel owners need access to a constant source of financing between $1 to $8 million dollars.

This creates a separate problem for the hotel owner: traditional lenders like banks, life insurance companies, CMBS lenders, or agencies historically avoid loans under $5 - $10 million. The origination fee they earn doesn’t justify the work required to finalize the loan.

A direct lending strategy can step in for the traditional sources and provide the hotel owners and developers a constant source of financing for small-balance loans.

Summary

- Traditional sources of yield like dividend-paying stocks, REITs, and corporate bonds can be highly correlated to stocks;
- Bond portfolios are producing lower yield at higher duration, which can increase risk to the shareholder;
- Passive strategies force investors to own all assets, not just the potentially profitable investments

Virtua's direct lending strategy seeks to provide investors:

- Higher yield than traditional risk assets with potential less risk
- More concentrated portfolio with higher transparency
- Active asset management

Disclosures

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Alternative investments may involve higher fees, limited liquidity and greater risks, including higher volatility and the opportunity for significant losses compared to traditional investment strategies. Diversification does not ensure a profit or guarantee against a loss.

Risks of the Offering – For a thorough discussion of risks, please see the PPM. Some of the risks include:

Investors risk losing all capital invested in the Fund and/or may not receive returns at the levels the Fund expects. The investment is illiquid and members may not withdraw nor transfer their ownership without consent of the Fund Manager and, then, only in compliance with all laws, rules, and regulations.

We are subject to the risks inherent in lending against the security of a trust deed and other security interests on commercial real estate. We may secure our Loans with fractionalized deeds of trust with non-affiliates in which we may be a minority or majority holder.

We compete with a number of banks, savings and loan associations, mortgage banking companies, and investment firms. State usury laws may impose restrictions on the interest we can charge. There could be a delay in the investment of proceeds from this Offering. Due to the size of the Fund, we may be limited in the amount of diversification we can achieve. We may invest entirely in projects owned and managed by our affiliates.

Business Risks

- Default Risk - Owners may be unable to adequately fund their expenses and may default in paying principal and interest on senior obligations with priority over Fund investments.
- Competition Risk – Properties will be subject to competition from similar types of hotel properties in the vicinity in which they are located.
- Diversification of Risk – The Fund’s investments will be in a specific asset class. Diversification of investments will depend upon available opportunities and total capital raised.
- Distribution Risk - Cash distributions generally will be available only to the extent that the Fund has cash receipts available to meet all obligations and to thereafter return capital and profits to its members

Real Estate Risks

The Fund’s business is subject to all the risks associated with the real estate industry. Investments in real estate are speculative in nature. Many of these factors are not within the Fund’s control and could adversely impact the value of the Fund’s investments.

These factors include, but are not limited to: downturns in worldwide, national, regional and local economic conditions; conditions affecting real estate in specific markets in which the Fund may invest, such as oversupply or reduction in demand for real estate; changes in interest rates and availability of attractive financing; changes in real estate and zoning laws; environmental and/or engineering issues unforeseen in due-diligence, and changes in environmental legislation and related costs of compliance; condemnation and other taking of property by the government; changes in real estate taxes and any other operating expenses; and the potential for uninsured or underinsured property losses.

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