

Property Investment Return Waterfall

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On December 31, 2025, the Partnership closed the disposition of its first realized real estate investment, returning the full sale proceeds to the equity stack on the same day. Over an approximately 31-month hold, the deal generated \$5.29 million of profit on \$6.79 million of invested equity, producing a project-level IRR of 27.95% and a 1.78x equity multiple.

This memorandum sets forth the distribution waterfall under three contemplated promote structures and calculates IRR, MOIC, and profit to each capital partner. All figures tie directly to the accompanying Excel model (Waterfall_Model_Corrected.xlsx).

EQUITY INVESTED	TOTAL DISTRIBUTIONS	PROJECT IRR	PROJECT MOIC
\$6,790,000	\$12,076,466	27.95%	1.78x

Deal Facts

Salient Fact	Value
Investment Date	May 31, 2023
Disposition Date	December 31, 2025
Hold Period	~31 months (2.6 years)
Total Equity Invested	\$6,790,000
Total Distributions	\$12,076,466
Total Profit	\$5,286,466
Project IRR (XIRR)	27.95%
Project MOIC	1.78x

Project Cash Flow Schedule

All distributions occurred on calendar quarter-ends with the exception of the initial close and disposition. The schedule below underpins all XIRR calculations on an actual-date basis.

#	Date	Project Cash Flow	Note
1	10/31/2023	\$400,000	Operating distribution
2	1/31/2024	\$100,000	Operating distribution
3	5/31/2024	\$200,000	Operating distribution
4	7/31/2024	\$225,000	Operating distribution
5	10/31/2024	\$250,000	Operating distribution

#	Date	Project Cash Flow	Note
6	1/31/2025	\$250,000	Operating distribution
7	4/30/2025	\$350,000	Operating distribution
8	7/31/2025	\$300,000	Operating distribution
9	10/31/2025	\$50,000	Operating distribution
10	12/31/2025	\$9,951,466	Sale + final distribution
	Total	\$12,076,466	vs. \$6,790,000 invested →
			1.78x project MOIC

Part I - Single-Tier Equity Waterfall

Capital Structure

Party	% of Equity	Capital	Role
General Partner	10.00%	\$679,000	Sponsor / promote recipient
Limited Partner	90.00%	\$6,111,000	Investor capital
Total	100.00%	\$6,790,000	

Waterfall Structure

Distributions follow a two-tier promote structure:

- Tier 1 - Pari Passu: Investors and General Partner share cash flow pro rata until the Limited Partners (and GP on its co-invest) achieve a 9.00% IRR (preferred return).
- Tier 2 - Promote: 75% to the Investors / 25% promote to the General Partner thereafter.

Mechanics & Observations

Because interim operating distributions (\$2.125 million across nine quarters) were modest relative to the 9.00% accruing pref balance, the Tier 1 hurdle was not satisfied until the December 2025 sale.

Throughout the hold, all interim distributions cleared at pari passu (90% LP / 10% GP). At sale, \$6.12 million was first applied to clear the unpaid preferred return and capital balance pari passu; the residual \$3.83 million was split 75/25, generating \$957k of promote to the GP.

Part I - Returns

Metric	General Partner	Limited Partner
	10% of equity	90% of equity
Investment Amount	\$679,000	\$6,111,000
IRR (XIRR)	58.71%	23.68%
MOIC	3.05x	1.64x
Profit	\$1,389,844	\$3,896,622

Result: The promote structure significantly amplifies GP returns - turning a 10% capital contribution into 26% of total profit. The LP still earns a healthy 23.68% IRR on a 1.64x multiple.

Part II - Two-Tier Equity Waterfall

Capital Structure

Party	% of Equity	Capital	Role
General Partner	10.00%	\$679,000	Sponsor / promote recipient
Limited Partner	90.00%	\$6,111,000	Investor capital
Total	100.00%	\$6,790,000	

Waterfall Structure

Distributions follow a three-tier promote structure with an additional accelerated promote above an 18% IRR:

- Tier 1 - Pari Passu: Pro rata until the Investors achieve a 9.00% IRR.
- Tier 2 - First Promote: 75% to the Investors / 25% promote to the GP up to an 18.00% IRR.
- Tier 3 - Catch-up Promote: 60% to the Investors / 40% promote to the GP thereafter.

Mechanics & Observations

As in Part I, interim distributions cleared at pari passu and the Tier 1 hurdle was satisfied at sale.

Of the \$3.83 million Tier 2/Tier 3 residual, \$2.25 million was required to step the LP IRR from 9% to 18% (distributed 75/25), and the remaining \$1.58 million cleared above the 18% hurdle (distributed 60/40).

The accelerated 40% promote above 18% IRR is the key economic difference vs. Part I.

Part II - Returns

Metric	General Partner	Limited Partner
	10% of equity	90% of equity
Investment Amount	\$679,000	\$6,111,000
IRR (XIRR)	64.93%	22.58%
MOIC	3.36x	1.60x
Profit	\$1,603,155	\$3,683,311

Result: The accelerated promote tier shifts an additional ~\$213k of profit from the LP to the GP relative to Part I. GP IRR climbs from 58.71% to 64.93%; LP IRR compresses modestly from 23.68% to 22.58%.

Part III - Multi-Entity Capital Structure

Revised Capital Structure

Entity	% of Equity	Capital	Waterfall Treatment
GP Promote Entity	0.01%	\$679	Receives promote; minimal capital
Entity A - Property	5.00%	\$339,500	Project-level economics; pays no promote
Manager			
Entity B - GP Investment	19.51%	\$1,324,729	Pari passu with Entity C; funds promote
Entity C - Limited Partner	75.48%	\$5,125,092	Pari passu with Entity B; funds promote
Total	100.00%	\$6,790,000	

Entity

- Entity B and Entity C participate identically through every tier of the waterfall on a pari passu basis (in proportion to their respective 19.51% and 75.48% capital shares of the promote-bearing pool).
- Entity A receives strictly project-level economics (5.00% pro rata of every project cash flow) and does not pay promote - it earns the project IRR (27.95%) and project MOIC (1.78x) by definition.
- The GP Promote Entity receives its 0.01% project-level share plus 100% of the promote, which is funded proportionally by Entity B and Entity C only.

Mechanics & Observations

The Part III waterfall preserves the Part II hurdle structure (9% / 18% / 60-40 catch-up) but applies it only to the 95% of project cash that flows through the promote-bearing pool (Entity B + Entity C + the GP Promote Entity's 0.01% sliver).

Entity A's 5% share is bypassed and paid directly. Because Entity B and Entity C are identically structured under the waterfall, they earn the same IRR (22.58%) and MOIC (1.60x) - matching the Part II Limited Partner outcome exactly.

The GP Promote Entity invests only \$679 of capital but receives the full \$1.13 million promote, producing the extreme IRR/MOIC shown below.

Part III - Returns

Metric	GP Promote	Entity A	Entity B	Entity C
	0.01%	5.00%	19.51%	75.48%
Investment	\$679	\$339,500	\$1,324,729	\$5,125,092
Amount				
IRR (XIRR)	1,674.03%	27.95%	22.58%	22.58%
MOIC	1,672.01x	1.78x	1.60x	1.60x
Profit	\$1,134,613	\$264,323	\$798,460	\$3,089,070

Methodology & Assumptions

- IRR is calculated on an XIRR / actual-date basis using the exact cash-flow dates listed in the Project Cash Flow Schedule.
- Hurdle balances accrue daily on an actual/365 basis between the model's monthly tracking dates. This replaces a simpler annual-rate-divided-by-12 approximation used in the original draft model.
- MOIC equals total distributions received divided by initial investment amount; profit equals total distributions less initial investment.
- All Tier 1 distributions occur in proportion to capital contributions.
- All promote splits apply to cash above each hurdle in the order described.
- The Part III waterfall is computed on the cash flow that bypasses Entity A - i.e., 95% of every project cash flow - with Entity A receiving its 5% share at the project level outside the promote-bearing pool.