

LPL Financial Alternative Investments Product Questionnaire

To be completed by advisor and/or sponsor. This form will help determine if a product should be considered for full due diligence review. Please note: Completing this form does not necessarily mean LPL Financial will approve this product.

Section I: Sponsor and Product Information



Sponsor Name:

Name of Product: Moody National REIT II, Inc.

Investment Objective: (Please describe the primary investment objective (s) of this product and how the fund will accomplish this)

Based on our research into the fundamentals of the asset classes, we think that there is a significant investment opportunity within the hospitality industry – specifically select-service hotels. The term “select-service,” refers to business-class hotels that do not depend on luxury, leisure travel. The vast majority of the assets Moody National REIT II (“REIT II”) will acquire will be Marriott, Hilton, and Hyatt select service hotels (such as Courtyard by Marriott, Hilton Garden Inn, or Hyatt Place). We invest in these brands for the superior reservation systems and high quality brand standards versus other franchisors (such as Intercontinental Hotels Group or Choice Hotels). Furthermore, select-service operators are able to take 35-40% of gross revenues to the Net Operating Income (NOI) line of profit and loss statements whereas full-service hotel operators typically bring closer to 20% of gross revenues to the NOI line.

REIT II will buy predominately in major metropolitan markets in the East Coast, West Coast, and Sunbelt regions. In addition, our analysis also suggests that in order to perform over time, select-service hotels must be located within a high concentration of office buildings, at the gate of a major university, or near a major medical center. Those three traits generate hotel room-night demand that is relatively inelastic to fluctuations in the economy. For instance, hospitals and universities operate in good and bad economic times. REIT II will also seek hotel opportunities in U.S. "Global Gateway" cities that face technical pressures from emerging international economies. We believe this comprehensive, global view gives REIT II another market-leading edge. According to *Smith Travel Research* (“STR”), for the last 20 years, hotels located within the Top 25 U.S. Markets have achieved nearly a 40% premium on rate versus the smaller U.S. markets.

Moody National Companies has had extensive experience financing, owning, and operating hotels since 1996. As a result, Moody's team of experts, who have experienced many cycles in the hospitality sector, will provide REIT II with unparalleled expertise as its Advisor and Manager

Where has the product been successfully marketed in the past? Does that experience translate well into the LPL Financial marketplace?

REIT II will be distributed through the IBD and RIA channel. Moody has experienced success in this channel, having raised over \$725,000,000 in equity through its various real estate programs. We know our experience will translate favorably into the LPL system for two reasons: 1) Breadth of Experience and Real Estate Expertise of the Sponsor and 2) the High Quality Sales Team assembled from Moody Securities.

1. **Sponsor Experience.** Moody National Companies was founded as Moody National Mortgage Corporation in 1996. Since that time, Moody has evolved into a full-service commercial real estate firm with over 1,200 employees within several divisions, described below. It's important to note that of all the accomplishments listed below, we are most proud of receiving the ADISA *ACE Award* for the *Sponsor of Excellence*. This award, which is voted on by industry peers and competitors, recognizes one sponsor that displays an "achievement of excellence" with the highest ethical standards and best practices in the industry.

Moody National Mortgage Corporation provides debt, equity, and structured financing. To date the company has closed over 200 transactions in 40 states representing \$1 billion. Awards, milestones, and recognitions include the following:

- Closed over 200 transactions
- Completed transactions in 40 states
- Secured approximately \$1 billion in debt, equity, and structured financing
- Awarded top producer for Merrill Lynch
- Awarded top producer for Goldman Sachs
- Pioneered the transition from a correspondent model to a client-representative model

Moody National Development Company, L.P. develops world class properties through meticulous attention to detail with an uncompromising commitment to quality. Sample developments include the following:

- Hilton Garden Inn Frisco, Texas – a 102-room hotel in the prestigious Dallas suburb
- TOPS Red Oak Medical Office – a high-tech medical office building located in Northwest Houston
- 7575 Kirby – 176 luxury condominium project located in Houston's Texas Medical Center
- Marriott Courtyard in Houston's Texas Medical Center – 197 room hotel in the largest medical center in the world

Moody National Management L.P. provides professional property management services designed to maximize operational efficiencies while delivering a quality environment for tenants and favorable investment returns for investors.

- Stephen Woods, Vice President of Management, won the Building Owners and Managers Association's "International Office Building of the Year"
- Managed 3,706 multifamily units
- Managed 67 hotels
- Managed approximately 1 million square feet of office space

Moody National Realty Company, L.P. and its affiliates have sponsored 47 privately offered real estate programs and one publically registered program for a total capitalization of approximately \$1.8 billion. In addition, Moody National Realty Company, L.P. and its affiliates have acquired approximately 65 hotels throughout the United States.

Moody National Title Company, L.P. plays a critical role in the real estate transaction due to its involvement from contract to closing. The company is underwritten by Fidelity National Title Company and Old Republic National Title Insurance Company. Fidelity National is the second largest title company in the nation.

Moody National Insurance Agency, LLC is currently providing coverage for assets in excess of \$1 billion. By capitalizing on economies of scale and relationships with the premier insurance providers, it offers world-class Property and Casualty insurance at the lowest available market premiums.

Moody National Advisor II, LLC serves programs sponsored by Moody National Companies, including Moody National REIT II, Inc. This entity is responsible for the day-to-day activities of Moody National REIT II, Inc., as well as for implementing its investment strategy. In addition, this entity is active in a wide range of real estate investing – including research, identification, due diligence, acquisition, and disposition.

2. **Sales Team.** Moody Securities has assembled a nationwide, talented team of wholesalers dedicated to distribute Moody's real estate offerings. It's important to note that in order to qualify for the field, each wholesaler must first be thoroughly well-versed in the product offerings, culture and experience of the Sponsor, alternative investment industry trends, and U.S. commercial real estate market data. All of this training occurs internally through our "Moody U" program. Moody, then, deploys its quality sales team members throughout the country to *educate*, not sell, the reps and advisors on Moody and its programs.

Product Use: (Please describe how investors typically incorporate this product into diversified portfolios)

REIT II is typically used as a non-correlated, inflationary hedge, income producing investment for a client portfolio. REIT II pays a 7% current distribution to its shareholders, paid out monthly.

Who has completed third party due diligence? (when applicable)

Bowman, Buttonwood, Mick, and FactRight

Offering Structure: a public offering or a private placement

Total firm assets under management: Approximately \$819,711,158 (as of date) 12/31/16

Number of completed programs: 46 Private, 1 Public Completed

What type of product is this?

Managed Futures Fund Real Estate Investment Trust (REIT) Real Estate Limited Partnership

1031 Exchange Program Oil & Gas Limited Partnership Leasing Limited Partnership

Private Equity Exchange Fund Non-Traded BDC

Closed-End Fund (Interval or Tender Offer):

Hedge Fund of Funds: List strategies:

Other: Please define briefly:

Is this product a perpetual offering (yes or no)? **No**

Total amount to be raised in this offering: **\$1B**

Total amount raised to date (provide date): **\$98,702,657.43*** through 3/21/17

**Should the proposed REIT I and REIT II Merger be approved, we anticipate approximately \$85M of additional equity contributed into REIT II. Post-merger, the equity amount will be approximately \$184,000,000*

Who initiated your contact with LPL Financial and why (advisor request, contacted by LPL home office, etc)?

Home office contact

Are you seeking approval for Brokerage and/or Advisory Programs? **Brokerage**

Please list any known competing products: To some extent, CareyWatermark II. However, CW2 invests primary in full service and luxury hotel assets, while we exclusively target select- service hotel assets. We also invest in “dollar-good day one” cash-flowing assets. CW2 has historically invested in more capital appreciation opportunities. With this in mind, broker dealer firms consider REIT II a complimentary product to CW2, not necessarily competitive.

Minimum Investment Amount: **\$2,500**

Top strengths of program:

1. **Income.** REIT II is actively deploying capital into select service hotel assets, which are trading in the 7%-8% capitalization rate range. With the use of moderate leverage, this delivers to REIT II in place, double digit cash-on-cash returns. Therefore, the greatest strength executed currently by REIT II is its distribution. It should be noted that through the 3rd quarter 2016, Moody National REIT II delivered a 95% MFFO payout ratio for through first 9 months of the year, and 82% for the latest quarter.
2. **Value Creation.** In the post-15-02 environment, sponsors are required to value REITs sooner. This is a good step for the industry, however the onus is on the sponsors to execute. As a math-based company, Moody identifies the asset class that has the highest propensity to increase in Net Operating Income (NOI) in the shortest period of time. Without question, this asset class has been and continues to be hospitality. From 2010 to 2015, hotel demand increased 23.5% as compared with a 4.9% growth in supply according to CBRE Hotels. As a result of this imbalance, RevPAR (Revenue per Available Room) is expected to see continued growth following an increase of 6.8% in 2015. The combination of strong demand growth and suppressed supply should result in pricing power for hotel operators and asset appreciation for hotel investors.

Specifically, REIT II has demonstrated it can achieve growth during the offering period. In accordance with FINRA 15-02, REIT II utilizes the Appraised Value Methodology for value reflection on monthly customer statements. On March 20th, REIT II's Independent Board of Directors has determined an estimated value per share of **\$25.04** for the company's stock as of December 31, 2016. This marks the second consecutive year of valuation increase for REIT II (previous value of \$25.03 for the company's stock as of October 31, 2015). The REIT's advisor, Moody National Advisor II LLC, performed the valuation in accordance with Investment Program Association guidelines and engaged CBRE Inc. – Valuation & Advisory Services and Landauer Valuation & Advisory, a division of Newmark Grubb Knight Frank, to provide appraisals.

Top risks of program:

Lodging demand tends to track the broader economy. Should the U.S. fall into a recession, this could negatively impact room night demand as corporations pull back on business travel spending. This is why it is critical to maintain a

rigorous acquisition strategy of *only* buying premier branded hotels and *only* within submarkets of major metropolitan cities that display multiple demand generators that are rather inelastic to fluctuations in the economy.

What is the target market for this product?

Investors seeking an income producing, non-correlated, inflationary hedge investment.

Describe the product's redemption policies. Is there a secondary market for the product and is one expected to develop?

After 1 Year or longer: the lesser of 95% of Estimated Per Share Value or Price Paid for Shares.

Is there a Lock-up period?

Unless the shares are being repurchased in connection with a stockholder's death or qualifying disability, shares may not be repurchased under our share repurchase program until after the first anniversary of the date of purchase of such shares

List total annual fees: (include performance fees, hurdle rates and high water marks (if applicable))

- Acquisition Fees—Advisor or its affiliates: 1.5% of (1) the cost of all investments we acquire (including our pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) our allocable cost of investments acquired in a joint venture (including our pro rata share of the purchase price and our pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by us to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). Once the proceeds from the primary offering have been fully invested, the aggregate amount of acquisition fees and financing coordination fees shall not exceed 1.9% of the contract purchase price and the amount advanced for a loan or other investment, as applicable, for all the assets acquired.
- Financing Coordination Fees— Advisor: 1.0% of the amount available under any loan or line of credit originated or assumed, directly or indirectly, in connection with the acquisition of properties or other permitted investments, which will be in addition to the acquisition fee paid to our advisor, and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. Financing coordination fees are only payable if our advisor provides services in connection with the origination, assumption or refinancing of debt that we use to acquire properties or other permitted investments. Our advisor may pay some or all of the fees to third parties if it subcontracts to coordinate financing. No fee will be paid in connection with loan proceeds from any line of credit until such time as we have invested all net offering proceeds.

- Reimbursement of Acquisition Expenses—Advisor: Reimbursement of actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether we actually acquire the related assets. In no event will the total of all acquisition fees (including financing coordination fees) and acquisition expenses payable exceed 6.0% of the contract purchase price of all real estate investments acquired.
- Asset Management Fees—Advisor: A monthly amount equal to one-twelfth of 1.0% of the sum of the cost of all real estate investments we acquire.
- Hotel Management Fees—Moody National Hospitality Management, LLC: A monthly hotel management fee equal to 4.0% of the monthly gross receipts from the properties managed by our property manager. Our property manager may pay some or all of these fees to third parties for management services. In the event that our TRS lessee contracts directly with a non-affiliated third-party property manager, our TRS lessee will pay our property manager a market-based oversight fee. Our TRS lessee will reimburse the costs and expenses incurred by our property manager on its behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties. Our TRS lessee will not, however, reimburse our property manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of our properties.
- Annual Incentive Fee—Moody National Hospitality Management, LLC: We, indirectly through our TRS lessee, also pay an annual incentive fee to our property manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by our property manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Our property manager may pay some or all of this annual fee to third-party property managers for management services.
- Operating Expenses—Advisor: We reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services provided to us, including our allocable share of the advisor's overhead, such as rent, personnel costs, utilities and IT costs; provided, however, that we do not reimburse our advisor or its affiliates for employee costs in connection with services for which our advisor or its affiliates receives acquisition, disposition or asset management fees or for the personnel costs our advisor pays with respect to persons who serve as our executive officers.

Program Economics: Please describe how LPL advisors and LPL home office are compensated for offering this product:

LPL Advisors will be paid a capped commission of 6%, 3% of which will be paid up-front, followed by an annual trail of 1% for 3 years. LPL home office will be paid an up-front revenue share of 1.25%

Approved for sale in all states? Yes.

Five-year track record for this product and/or other products offered by sponsor:

Product Name	Year 1	Year 2	Year 3	Year 4	Year 5
Moody National REIT II, Inc.	\$25.03/7%	\$25.04/7%			
Moody National Academy DST	6%				
Moody National REIT I, Inc.	\$10/8%	\$10/8%	\$10/8%	\$10/8%	\$10.75/8%

Please list top five firms you currently have selling agreements with for this product:

1. Triad Advisors
2. Independent Financial Group
3. Centaurus Financial
4. Investacorp
5. Geneos Wealth Management

Explain how this product's performance will be evaluated:

REIT II utilizes the **Appraised Value Methodology**, a value disclosed by the REIT that is based on an appraisal of the assets and liabilities of the program by or with the material assistance of a third-party valuation expert, in conformity with the standard industry valuation practice. Valuations must be performed at least annually. On March 20th, REIT II's Independent Board of Directors has determined an estimated value per share of **\$25.04** for the company's stock as of December 31, 2016. This marks the second consecutive year of valuation increase for REIT II (previous value of \$25.03 for the company's stock as of October 31, 2015). The REIT's advisor, Moody National Advisor II LLC, performed the valuation in accordance with Investment Program Association guidelines and engaged CBRE Inc. – Valuation & Advisory Services and Landauer Valuation & Advisory, a division of Newmark Grubb Knight Frank, to provide appraisals

Will this product trigger any new regulations or regulatory scrutiny for a broker/dealer (LPL Financial)?

REIT II is an SEC- registered and state-cleared product. As such, all guidelines and financial audits must be in compliance with the SEC, NASAA, and GAAP rules.

Section II: Marketing**Marketing Strategy: Please describe your strategy(s) for the following:**

- 1.) Marketing to LPL advisors:
- 2.) Educating LPL advisors on your product type and product (Include number of wholesalers, presentation materials, etc.):

Marketing to LPL Advisors

While Moody is founded upon an unwavering commitment to real estate expertise, we also recognize that the ability to raise the funds necessary to implement our investment strategy is vital because there can be no successful returns without first raising the equity. To that end, Moody Securities has assembled a nationwide, talented team of wholesalers dedicated to distribute Moody's real estate offerings. Please see territory map for details of the territories.

Training is critical because Moody is first and foremost a real estate company. As such, we require all of our executives and key personnel to be well-versed in real estate, and our sales and marketing teams will be no exception. Therefore, in order to qualify for the field, each wholesaler must first be thoroughly well-versed in the product offerings, culture and experience of the Sponsor, alternative investment industry trends, and U.S. commercial real estate market data.

As Moody expands its Selling Group, each territory team commences a two-phase rollout plan for their respective regions, a process which is based upon production, historical relationships, and geographical criteria. This process allows sales teams to implement sales visits and follow-up calls with optimal success ratios. The first phase in this process involves seeking success with the following groups: the registered representatives and advisors of the selling group in larger offices that already understand and sell the non-traded REIT product, offices in which the team has a prior relationship in place, and offices that are located in the major metropolitan areas of the sales team's territory. In phase two, each team seeks to develop relationships with reps and advisors that are not as experienced in alternative investments and real estate products. Our goal is to

take traditional equities experts and transition their mindset on alternative/real estate investments from what they previously considered unnecessary into an important component of asset allocation.

This penetration is accomplished through *education*, and specifically through “Moody U.”

Educating LPL Advisors

The Moody U program is the backbone of the Moody marketing process, creating more informed professionals who understand both our product *and* the real estate landscape as a whole. Our Moody U strategy is simple. More frequent Moody U meetings with a select few advisors. At each monthly meeting, we train approximately 12-15 registered reps and advisors on Moody, U.S. real estate dynamics, and our acquisition strategy. We intentionally maintain an intimate training group size because we value each advisors’ time and want each attendee to leave the training with every one of their questions answered from the interaction derived from the executive management team. Historically, we have found this to be a highly beneficial strategy for each advisor to obtain the most quality education for the time period in which they are able to spend at our Moody U training.

What is the size of your sales force and the ratio of external/internal wholesalers? Currently, Moody Securities has 9 Externals and 5 Internals. We anticipate growing organically as the Selling Group Increases.

What products does your sales force support in addition to this product?

We will continually offer a DST offering alongside REIT II. Currently, Moody National Academy DST is being distributed in addition to REIT II.

Section III: Operations

1. Who is your Transfer Agent? [DST Systems](#)
2. Who is the primary contact (name and number) at the TA and Sponsor?

Sponsor:

Ernie Penate

Director of Investment Operations

EPenate@MoodyNational.com

713-273-6687

TA:

Rick Kellogg

816-435-1626

3. How are purchases processed (physical sub doc, NSCC etc.)? [Physical Sub Docs](#)
4. How does LPL electronically access client/rep account information (i.e. DST Vision, Advisor Central)? [DST Vision](#)
5. How often are investors admitted to the fund? [Every day](#)

6. How is pricing information disseminated and how often? [In accordance with the Appraised Value Methodology, a new value will be performed at least annually with the material assistance of a 3rd party appraisal company. After the new NAV is posted, there will be subsequent price changes for future investors as long as the offering is open.](#)
7. If Advisory eligible can a LPL specific sub doc / application be created? [Yes, with the review/approval of our counsel.](#)
8. Are trust documents required for trust account purchases? Is there a trust certification doc that can be submitted in lieu of trust docs? [Yes we require trust docs. We have a Certification of Investment Powers form that can be used in lieu of the trust docs.](#)
9. Are you a member of AIP? [Yes](#)
 - a. If so, what functionality do you use? [We are an AIP Manufacturer. DST provides our data feeds to the different custodians and BD's.](#)
10. Is the product available for volume discounts (yes or no)? [Yes](#)
 - a. If yes, is it step-through or step-in processing?
[Subscriptions may be combined for the purpose of determining the volume discounts in the case of subscriptions made by any qualifying purchaser, provided all such shares are purchased through the same broker-dealer. The volume discount shall be prorated among the separate subscribers considered to be a single qualifying purchaser. Any request to combine more than one subscription must be made in writing submitted simultaneously with your subscription for shares, and must set forth the basis for such request. Any such request will be subject to verification by the dealer manager that all of such subscriptions were made by a single qualifying purchaser.](#)
11. What type of tax reporting (1099 or K-1)? [1099](#)
12. Is the product for qualified accounts, non-qualified, or both? [Both](#)
13. Has the product broken escrow on qualified and non-qualified business (yes or no)? [Yes](#)
14. Do investors need to be "Qualified Purchasers" (yes or no)? [Semi accredited: 70k/70k, or 250k accreditation](#)

LPL Operational Requirements:

1. Please provide a copy of your subscription document and most recent prospectus. [Please see REIT II section on link provided.](#)
2. LPL Financial requires quarterly position files to be delivered at a minimum. Preferred monthly. How will files be delivered? [We can send monthly position files via DTCC AIP.](#)
3. Any and all changes/corrections to investment and/or client information can be affected via a Letter of Indemnity from LPL/PTC.

Section IV: Financial Advisor Request (For completion by LPL Financial Advisor Only)

Why are you requesting for this product to be added?

Do you want this product approved for brokerage/advisory/other?

Please return this completed questionnaire to LPLFinancialAlternativeInvestments@lpl.com

Section V: Internal LPL Use Only

IPS Questionnaire returned?

Internal LPL discussion to review Questionnaire?

New AI Onboarding Form returned?

FA/LPL economic discussion?

Operational fit with LPL business model?

Is a No Lien Letter required by LPL?

LPL has copies of all required agreements?

Review product for brokerage and/or advisory (Brokerage/Advisory/Both)?

Broken Escrow on qualified and non-qualified (or reasonable chance will break escrow before launch)?

Who has completed third party due diligence (when applicable)?