

# OPERATING AGREEMENT

OF

## AFFINITY COMMUNITIES INVESTMENT FUND LLC

(A Texas Limited Liability Company)

*Two-Class Investment Structure*

This Operating Agreement ("Agreement") is entered into as of June 11<sup>th</sup>, 2025, by and among Affinity Communities Master LLC, a Texas limited liability company (the "General Partner" or "GP"), and the persons and entities listed on Schedule A attached hereto (collectively, the "Limited Partners" or "LPs").

### RECITALS

**WHEREAS** the Members desire to form a limited liability company under the Texas Business Organizations Code to invest in real estate development projects through a series LLC structure;

**WHEREAS** the Fund will offer two classes of membership interests: Growth Class (with MOIC-based returns) and Income Class (with preferred returns plus equity participation);

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements herein contained, the parties agree as follows:

## ARTICLE I: DEFINITIONS

**Affinity Communities Master LLC or GP:** The General Partner of the Fund, responsible for all management and investment decisions.

**Capital Contribution:** The total amount of cash or property contributed by a Member to the Fund.

**Committed Capital:** The total amount of capital that a Member has committed to invest in the Fund, whether or not such capital has been called or contributed.

**Fund or Company:** Affinity Communities Investment Fund LLC, a Texas limited liability company.

**Growth Class:** A membership class targeting a Multiple on Invested Capital (MOIC) return based on the hold period of the Series investment. Growth Class Members receive their MOIC return and do not participate in Tier 4 distributions.

**Income Class:** A membership class receiving a 12% per annum preferred return (compounded annually) plus participation in all remaining profits after Growth Class MOIC is achieved.

**Limited Partners or LPs:** All Members other than the General Partner, holding either Growth Class or Income Class interests.

**Lockup Period:** The 36-month period from the date of a Member's initial Capital Contribution during which the Member may not withdraw, redeem, or transfer their membership interest without GP consent.

**Management Fee:** An annual fee equal to 3% of Committed Capital, payable quarterly to the General Partner for management services.

**Member:** Any person or entity admitted as a member of the Fund, including the General Partner and all Limited Partners.

**MOIC (Multiple on Invested Capital):** The targeted total return multiple for Growth Class Members, calculated as total distributions divided by capital contributed. Target MOIC is 2.0x at 36 months and 2.25x at 48 months, with linear interpolation for hold periods between these milestones.

**Preferred Return:** A 12% per annum return (compounded annually) paid to Income Class Members before any other profit distributions, calculated from the date of Capital Contribution to the date of distribution.

**Promote or Carried Interest:** The General Partner's share of profits (40%) after preferred returns and MOIC targets have been achieved (Tier 4 distributions only).

**Reinvesting Member:** A Member who has completed at least one full Series hold period and elects to reinvest distributed capital into a subsequent Series, qualifying for enhanced terms under Article XIII.

**Series:** A designated series established by the Fund for a specific real estate development project, with separate assets, liabilities, and investment returns tracked independently from other Series.

## **ARTICLE II: FORMATION AND PURPOSE**

### **Section 2.1: Formation**

The Fund was formed as a Texas limited liability company on June 11<sup>th</sup>, 2025 by filing a Certificate of Formation with the Texas Secretary of State. The rights and obligations of the Members shall be governed by this Agreement and the Texas Business Organizations Code.

### **Section 2.2: Name and Principal Place of Business**

The name of the Fund is Affinity Communities Investment Fund LLC. The principal place of business is: 3425 Ivy Arbor Ln. Pearland, TX 77581

### **Section 2.3: Purpose**

The purpose of the Fund is to invest in real estate development projects, including but not limited to land acquisition, development, construction, and eventual sale or refinancing of residential and commercial properties. The Fund may establish separate Series for each project or group of projects.

### **Section 2.4: Term**

The Fund shall continue until dissolved in accordance with this Agreement or the Texas Business Organizations Code. Individual Series shall have hold periods of 30-48 months as determined by project requirements.

## **ARTICLE III: MEMBERS AND MEMBERSHIP CLASSES**

### **Section 3.1: General Partner**

Affinity Communities Master LLC shall serve as the General Partner and shall have sole management authority over the Fund. The General Partner holds a 5% ownership interest in the Fund and participates in Tier 1 (return of capital) and Tier 2/3 (preferred return and MOIC) on a pro-rata basis with all Members.

### **Section 3.2: Limited Partners and Class Election**

#### **Section 3.2.1: Class Election**

Each Limited Partner must elect to participate in either Growth Class or Income Class at the time of investment. A Member may allocate their Capital Contribution between both classes (e.g., \$300,000 to Growth Class and \$200,000 to Income Class).

#### **Section 3.2.2: Multiple Entity Investment**

A single investor may invest through multiple legal entities (e.g., personal LLC, IRA LLC, trust, individual account), with each entity making a separate class election. Each entity is treated as a separate Member for purposes of capital tracking, distributions, and reporting.

#### **Section 3.2.3: Binding Nature of Class Election**

A Member's class election is irrevocable for the duration of the Series hold period (typically 36-48 months). The Member must remain in their chosen class until the Series exits and distributions are made.

#### **Section 3.2.4: Reinvestment Elections**

When reinvesting in a subsequent Series, Members may elect a different class than their previous investment. Reinvesting Members who qualify under Article XIII may also receive enhanced return terms.

### **Section 3.3: Admission of Members**

New Members may be admitted upon:

- Execution of a Subscription Agreement and this Operating Agreement
- Verification of accredited investor status
- Payment of the required Capital Contribution (minimum \$50,000, or \$25,000 for Reinvesting Members)
- Approval by the General Partner

## **ARTICLE IV: CAPITAL CONTRIBUTIONS**

### **Section 4.1: Initial Contributions**

Each Member's initial Capital Contribution and ownership percentage are set forth on Schedule A. The General Partner contributes 5% of total capital. Limited Partners collectively contribute 95% of total capital.

### **Section 4.2: Minimum Investment**

**Standard Minimum:** The minimum investment for new investors is \$100,000, which may be allocated entirely to one class or split between Growth and Income classes.

**Reinvesting Member Minimum:** Reinvesting Members may participate in subsequent Series with a minimum investment of \$50,000.

### **Section 4.3: No Additional Contributions Required**

No Member shall be required to make additional Capital Contributions beyond their initial Committed Capital without their express written consent.

### **Section 4.4: Return of Capital**

No Member has the right to withdraw or demand the return of their Capital Contribution except pursuant to distributions made in accordance with Article IX. Capital shall be returned only upon liquidation of Series assets.

## ARTICLE IX: DISTRIBUTIONS AND WATERFALL

### Section 9.1: Distribution Waterfall

Upon the sale, refinancing, or other liquidation of a Series investment, proceeds shall be distributed in the following order and priority:

#### TIER 1: Return of Capital

First, 100% of available proceeds shall be distributed to all Members (General Partner, Growth Class, and Income Class) pro rata based on their Capital Contributions until each Member has received an amount equal to their unreturned Capital Contribution in such Series.

*Example: In a \$10M Series with \$500K GP capital, \$4.75M Growth Class capital, and \$4.75M Income Class capital, Tier 1 distributes the first \$10M to return all capital contributions.*

#### TIER 2: Income Class Preferred Return

Second, 100% of remaining proceeds shall be distributed to Income Class Members only until they have received their Preferred Return of 12% per annum, compounded annually, calculated from the date of their Capital Contribution to the date of distribution.

**Calculation:** Preferred Return = Capital  $\times$  (1.12)<sup>(Years)</sup> - Capital, where Years = days held / 365.

*Example: \$4.75M Income Class capital held for 36 months (3 years): Preferred = \$4,750,000  $\times$  (1.12<sup>3</sup> - 1) = \$4,750,000  $\times$  0.4049 = \$1,923,476. However, in a scenario where proceeds allow, the actual distribution in Tier 2 would be this calculated preferred return.*

**CRITICAL:** Neither the General Partner nor Growth Class Members participate in Tier 2 distributions. This is Income Class only.

#### TIER 3: Growth Class MOIC Target

Third, 100% of remaining proceeds shall be distributed to Growth Class Members only until they have achieved their MOIC target based on the Series hold period:

- **36 months: 2.0x MOIC (100% return)**
- **48 months: 2.25x MOIC (125% return)**
- **Between 36-48 months: Linear interpolation**

**Calculation:** If hold period is between 36 and 48 months, MOIC = 2.0 + ((months - 36) / 12)  $\times$  0.25. Total distribution needed = Capital  $\times$  MOIC.

*Example: \$4.75M Growth Class capital, 36-month hold, 2.0x target: Growth needs total of \$9.5M. Already received \$4.75M in Tier 1, so Tier 3 distributes \$4.75M to reach 2.0x.*

**CRITICAL: Once Growth Class receives their MOIC target in Tier 3, they are DONE. Growth Class does NOT participate in Tier 4 distributions.**

#### TIER 4: Remaining Profits Split (60% Income LPs / 40% GP)

Fourth, all remaining proceeds shall be distributed as follows:

- **60% to Income Class Limited Partners** (distributed pro rata based on their Capital Contributions)
- **40% to General Partner** (as promote/carried interest)

**CRITICAL: Growth Class Members do NOT participate in Tier 4. Only Income Class Members and the General Partner receive Tier 4 distributions.**

*Example: If \$5M remains after Tiers 1-3: Income Class receives \$3M (60%), GP receives \$2M (40%), Growth Class receives \$0.*

## Section 9.2: Complete Distribution Example

**Scenario: \$10M Total Capital Raised, \$13M Total Proceeds, 36-Month Hold**

### Capital Structure:

- General Partner: \$500,000 (5%)
- Growth Class: \$4,750,000 (47.5%)
- Income Class: \$4,750,000 (47.5%)
- Total Capital: \$10,000,000

### Waterfall Calculation:

#### Tier 1 - Return of Capital: \$10,000,000

- GP receives: \$500,000
- Growth Class receives: \$4,750,000
- Income Class receives: \$4,750,000
- Remaining proceeds: \$13,000,000 - \$10,000,000 = \$3,000,000

#### Tier 2 - Income Class Preferred (12% for 3 years = 40.49%): \$1,923,476

- Income Class receives: \$1,923,476
- Calculation:  $\$4,750,000 \times (1.12^3 - 1) = \$4,750,000 \times 0.4049 = \$1,923,476$
- Remaining proceeds: \$3,000,000 - \$1,923,476 = \$1,076,524

#### Tier 3 - Growth Class MOIC (2.0x at 36 months): \$4,750,000

- Growth Class needs:  $\$4,750,000 \times 2.0 = \$9,500,000$  total
- Already received in Tier 1: \$4,750,000
- Tier 3 distribution needed:  $\$9,500,000 - \$4,750,000 = \$4,750,000$
- **BUT ONLY \$1,076,524 REMAINS!**
- Growth Class receives: \$1,076,524 (all remaining proceeds)
- ***Growth Class is OUT - did not reach 2.0x target***
- Remaining proceeds: \$0

#### Tier 4 - Split (60% Income / 40% GP): \$0

- No proceeds remain for Tier 4 distribution

### Final Returns Per \$100,000 Invested:

#### General Partner:

- Total received: \$500,000 (Tier 1 only)
- Return on \$500K: 0%

#### Growth Class (\$100K invested):

- Tier 1: \$100,000
- Tier 3: \$22,666 (pro rata share of \$1,076,524)

- Total: \$122,666
- Return: 22.7% over 36 months (did not reach 2.0x target)

**Income Class (\$100K invested):**

- Tier 1: \$100,000
- Tier 2: \$40,490 (12% preferred for 3 years)
- Total: \$140,490
- Return: 40.5% over 36 months (received full preferred return)

***KEY INSIGHT: In this scenario with moderate returns (1.3x total), Income Class significantly outperforms Growth Class because Income received their full 12% preferred while Growth fell short of their 2.0x target.***

## **ARTICLE XIII: REINVESTMENT INCENTIVE PROGRAM**

### **Section 13.1: Purpose and Eligibility**

The Fund has established a Reinvestment Incentive Program to reward loyal investors who reinvest their returns into subsequent Series. Any Member who has completed at least one full Series hold period (30-48 months) and received distributions is eligible for the benefits described in this Article.

### **Section 13.2: Priority Allocation Period**

Eligible Reinvesting Members shall have a thirty (30) day priority period to commit capital to new Series before the Series is offered to new investors. The General Partner will provide written notice to all eligible Members at least 45 days prior to the anticipated closing of a new Series.

### **Section 13.3: Enhanced Return Terms**

Members who commit to reinvest at least 50% of their distributed capital within sixty (60) days of distribution shall receive enhanced return terms:

**(a) Growth Class:** 2.1x MOIC target at 36 months (vs. 2.0x standard) and 2.35x MOIC target at 48 months (vs. 2.25x standard)

**(b) Income Class:** 13% preferred return per annum (vs. 12% standard)

These enhanced terms apply only to the reinvested capital, not to any new capital added to the investment.

### **Section 13.4: Reduced Minimum Investment**

Reinvesting Members may participate in subsequent Series with a minimum investment of \$50,000 (vs. \$100,000 standard minimum). This allows Reinvesting Members greater flexibility in capital allocation across multiple Series.

### **Section 13.5: Management Fee Reduction**

Members who reinvest 100% of distributed capital (excluding any amounts required to be distributed for tax purposes) shall receive a 0.5% reduction in management fees for the subsequent Series (2.5% vs. 3.0% standard). This reduction applies only to the reinvested capital amount.

### **Section 13.6: Class Switching Flexibility**

Reinvesting Members may switch between Growth Class and Income Class when reinvesting in a subsequent Series without penalty. Members switching classes shall retain all enhanced return terms described in Section 13.3 above.

### **Section 13.7: Expedited Onboarding**

Reinvesting Members who have invested within the prior twelve (12) months shall not be required to re-verify accredited investor status or complete new subscription documentation, provided their status has not materially changed. A simple reinvestment election form shall be sufficient.

### **Section 13.8: VIP Member Benefits**

Reinvesting Members who have participated in two (2) or more Series shall receive the following additional benefits:

- Quarterly conference calls with the General Partner to discuss Fund strategy and performance
- First opportunity to review and invest in new markets or property types before general offering
- Referral fee equal to 1% of capital introduced by the Member and successfully invested in the Fund

### **Section 13.9: Program Modifications and Termination**

The General Partner reserves the right to modify or terminate the Reinvestment Incentive Program with sixty (60) days written notice to all Members. Any modifications shall not affect Members who have already committed to reinvest under the terms of the Program in effect at the time of their commitment.

## **ARTICLE VIII: LOCKUP AND TRANSFER RESTRICTIONS**

### **Section 8.1: 36-Month Lockup Period**

All Limited Partners are subject to a 36-month lockup period from the date of their initial Capital Contribution. During the Lockup Period, Members may not:

- Withdraw or demand return of capital
- Transfer, sell, assign, or pledge their membership interest
- Redeem their interest for cash or property

The Lockup Period exists to provide the Fund with stable capital for the full project development cycle.

### **Section 8.2: Series Hold Periods**

Each Series shall have a hold period aligned with the project development timeline:

- Minimum hold period: 30 months
- Target hold period: 36 months
- Maximum hold period: 48 months

The General Partner shall make commercially reasonable efforts to liquidate Series assets within the target hold period, but market conditions may require longer hold periods up to the maximum.

### **Section 8.3: Permitted Transfers**

Notwithstanding Section 8.1, the following transfers are permitted with General Partner consent:

- Transfers to family members or trusts for estate planning purposes
- Transfers between entities under common control of the Member
- Transfers required by court order or operation of law

## **ARTICLE X: MANAGEMENT AND GP COMPENSATION**

### **Section 10.1: Management Fee**

The General Partner shall receive an annual management fee equal to 3% of Committed Capital (or 2.5% for Reinvesting Members who reinvest 100% of distributed capital). The management fee shall be:

- Calculated on an annual basis
- Payable quarterly in advance
- Charged separately from and prior to any distributions
- Used to cover operating expenses, due diligence, asset management, and reporting costs

### **Section 10.2: GP Ownership Participation**

The General Partner holds a 5% ownership interest in the Fund and participates in distributions as follows:

- Tier 1 (Return of Capital): GP receives 5% pro rata with all Members
- Tier 2 (Income Preferred): GP does NOT participate (Income Class only)
- Tier 3 (Growth MOIC): GP does NOT participate (Growth Class only)
- Tier 4 (Remaining Profits): GP receives 40% (promote/carried interest)

### **Section 10.3: Total GP Economics Summary**

The General Partner's total compensation consists of:

- Management Fee: 3% annually (paid quarterly, separate from distributions)
- Ownership Returns: 5% participation in Tier 1 (capital return)
- Carried Interest/Promote: 40% of Tier 4 remaining profits (after Income preferred and Growth MOIC paid)

*The promote aligns GP interests with investor success - the GP only earns significant promote when investors have already received their preferred returns or MOIC targets.*

**SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties have executed this Operating Agreement as of the date first written above.

**GENERAL PARTNER:**

**AFFINITY COMMUNITIES MASTER LLC**

By: \_\_\_\_\_  
Name: Randy E Hill  
Title: Managing Partner.

**LIMITED PARTNERS:**

*Each Limited Partner listed on Schedule A shall execute a counterpart signature page to this Agreement.*

## SCHEDULE A

### MEMBERS AND OWNERSHIP INTERESTS

<b>Member Name</b>	<b>Entity Type</b>	<b>Class</b>	<b>Capital / %</b>
Affinity Communities Master LLC	General Partner	GP	\$500,000 / 5.00%
[INSERT LP NAME]	[INSERT ENTITY TYPE]	[Growth/Income]	[\$[AMOUNT] / [%]
<b>TOTAL:</b>			<b>\$10,000,000 / 100.00%</b>

*Notes:*

- 1. Members may invest through multiple legal entities, with each entity making a separate class election.*
- 2. Individual Members may split their investment between Growth and Income classes.*
- 3. Minimum investment: \$100,000 for new investors, \$50,000 for Reinvesting Members.*
- 4. All Limited Partners must be accredited investors as defined by SEC Regulation D.*

## IMPORTANT DISCLAIMERS

### ATTORNEY REVIEW REQUIRED

This document is a TEMPLATE that must be reviewed and customized by a qualified securities attorney licensed in Texas before use. This is NOT legal advice, and using this template without proper legal counsel could result in securities law violations, personal liability, and substantial penalties.

### WHAT YOU STILL NEED

- Complete legal review by securities attorney (\$10,000-\$25,000)
- Private Placement Memorandum (PPM) aligned with this Agreement
- Subscription Agreements for each investor class
- SEC Form D filing and state Blue Sky compliance
- Accredited investor verification procedures
- Tax structuring advice from CPA familiar with real estate funds
- Fund administration and servicer setup

### ITEMS TO CUSTOMIZE

- Formation date (appears multiple times)
- Principal place of business address
- Registered agent information
- General Partner signatory information
- Schedule A with actual Limited Partners
- All [INSERT] placeholders throughout document
- State-specific provisions if operating outside Texas

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