

**INVESTMENT ADVISER BROCHURE  
PART 2A OF FORM ADV**

**LADDER CAPITAL ADVISER LLC**

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**This Investment Adviser Brochure (“this Brochure”) provides information about the qualifications and business practices of Ladder Capital Adviser LLC, a Delaware Limited Liability Company (“LCA”). If you have any questions about the contents of this Brochure, please contact LCA’s Chief Compliance Officer at 212-715-3170. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

LCA is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding LCA is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ADVISORY BUSINESS

LCA is an affiliate of a commercial real estate specialty finance company comprised of registered investment advisory entities and other entities controlled by Ladder Capital Finance Holdings LLLP (“**Holdings**”), a Delaware limited liability limited partnership (collectively, the “**Ladder Capital Group**”). The Ladder Capital Group, having commenced operations in October 2008, originates, underwrites, acquires, structures, manages and disposes of a diverse portfolio of commercial real estate mortgages, real estate and real estate-related assets.

LCA is a registered investment adviser that commenced operations in February 2011. LCA is ultimately controlled by Holdings and provides investment advisory services to Ladder Capital Realty Income Partnership I LP (“**LCR Partnership**,” and the limited partners of LCR Partnership, the “**LCR Limited Partners**”) and certain separately managed accounts investing in commercial mortgage backed securities (“**CMBS**”) (such accounts, the “**Managed CMBS Accounts**,” and together with LCR Partnership, the “**Clients**”), which Clients are comprised of high net worth and/or institutional investors generally meeting the standard of “qualified purchaser” under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”). This Brochure describes the applicable qualifications and business practices of LCA and LCR Income I GP LLC, LCA’s affiliated investment adviser and the general partner of LCR Partnership (the “**LCR General Partner**,” and together with LCA, the “**Advisers**”). The LCR General Partner is registered under the Advisers Act pursuant to LCA’s investment adviser registration in accordance with SEC guidance. LCA and the LCR General Partner operate together as a single investment advisory business in providing services to LCR Partnership. Holdings, through its wholly-owned subsidiaries, indirectly owns an interest in LCR Partnership.

The Advisers manage, on a non-discretionary basis, the business and affairs of LCR Partnership pursuant to LCR Partnership’s limited partnership agreement (the “**LCR Partnership Agreement**”) and the management agreement between LCA and LCR Partnership. LCR Partnership invests primarily in first mortgage debt secured by commercial real estate originated or acquired by the Ladder Capital Group. The Advisers manage \$145 million in LCR Partnership assets, based on the value of such assets as of December 31, 2011.

LCA also serves as the investment adviser, on a discretionary basis, to the Managed CMBS Accounts pursuant to specific investment guidelines and restrictions as set forth in the investment advisory agreement with each relevant Managed CMBS Account (each, an “**IMA**”). The Managed CMBS Accounts invest primarily in investment-grade CMBS. LCA manages \$23 million in Managed CMBS Account assets, based on the value of such assets as of December 31, 2011.

The Advisers’ investment advisory services to the Clients consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and, if applicable, achieving dispositions for such investments, although most LCR Partnership investments are expected to be held to maturity. See “Methods of Analysis, Investment Strategies and Risk of Loss” below for additional information.

## FEES AND COMPENSATION

In general, the Advisers are entitled to receive a management fee (a “**Management Fee**”) and an incentive distribution (a “**Promote**”) or performance-based fee (a “**Performance Fee**”), as applicable, in connection with advisory services. Clients also bear certain LCR Partnership or Managed CMBS Account expenses, as applicable. The Advisers do not currently advise Clients not subject to a Promote or Performance Fee. Certain fee and compensation information is not included below for Clients that are “qualified purchasers” within the meaning of the Investment Company Act.

### LCR Partnership

In addition to bearing all reasonable costs and expenses of LCR Partnership, LCR Partnership is obligated to pay to a Management Fee to LCA and a Promote to the LCR General Partner. Investment advisory and other fees are expected to be paid, except as otherwise described in the LCR Partnership Agreement, over the term of LCR Partnership, and investors generally are not permitted to withdraw or redeem interests in LCR Partnership.

### **Expenses**

LCR Partnership bears all reasonable costs and expenses of LCR Partnership.

### **Management Fee**

LCR Partnership is obligated to pay to LCA a Management Fee equal to a specified percentage of LCR Partnership’s net equity invested, until the termination of LCR Partnership. The Management Fee is payable until all LCR Partnership investments are disposed of or until the Advisers’ relationship with LCR Partnership is terminated for other reasons (as described in the LCR Partnership Agreement).<sup>1</sup>

### **Promote**

The LCR General Partner is eligible to receive a Promote with respect to each of LCR Partnership’s investments equal to a specified percentage of the proceeds of such investment after allowing for the return of the LCR Limited Partners’ capital contributions attributable to such investment plus a specified preferred return percentage, as more fully described in the LCR Partnership Agreement. The Promote distributed to the LCR General Partner is subject annually to a potential clawback if the LCR General Partner has received excess cumulative distributions.

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<sup>1</sup> Amounts otherwise payable on account of the Management Fee were reduced by such portion of any Organizational Expenses (as such term is defined in the LCR Partnership Agreement) in excess of a specified threshold. The reduction applied to the Management Fee payable at the end of the calendar quarter during which the offset arose.

## **Supplemental Fees**

LCR Partnership shall not be entitled to receive any origination, application or other similar fees in respect of LCR Partnership's investments, which such fees shall be paid to and retained by the Advisers or their affiliates without offset against the Management Fee ("**Supplemental Fees**"). Unless specifically excluded at acquisition by LCR Partnership, any other fees paid by third parties in respect of LCR Partnership's investments, including any exit, extension, forbearance or other similar fees are payable or otherwise due to LCR Partnership.

### **Managed CMBS Accounts**

In addition to bearing all fees and expenses incurred in connection with each Managed CMBS Account, each Managed CMBS Account Client pays to LCA a Management Fee and a Performance Fee.

## **Expenses**

All fees and expenses incurred in connection with each Managed CMBS Account pursuant to the relevant IMA are paid or reimbursed by the relevant Client, generally including, without limitation: commitment fees and other costs payable in connection with credit facilities; third-party investment expenses (*e.g.*, third-party expenses that LCA reasonably determines to be related to the investment of assets for the Managed CMBS Account, such as brokerage commissions, clearing charges, order execution and settlement charges, custodial fees, bank service fees and interest expenses, set-up and ongoing costs with respect to establishing and maintaining trading relationships for the Managed CMBS Account and with respect to derivative instruments and other investment structures; other third party fees (including, without limitation, due diligence and other costs related to the acquisition, holding or disposition of securities (whether or not the related transaction is consummated)); expenses of counsel, accountants and consultants; the cost of procuring and maintaining insurance; third-party valuation services expenses; expenses incurred in connection with negotiating the IMA; expenses relating to the management of the Managed CMBS Account (including, without limitation, the preparation of reports for the Client, if any); and extraordinary expenses. Any expenses attributable to one or more Managed CMBS Accounts shall be allocated on a *pro rata* basis among all such Managed CMBS Accounts.

Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

## **Management Fee**

The amount and timing of Management Fees for the Managed CMBS Accounts are established in the applicable IMA and may vary among the Managed CMBS Accounts. The Management Fees for the Managed CMBS Accounts are generally billed directly to the applicable Client based on a specified percentage of the Managed CMBS Account's assets, as described in applicable IMA.

## **Performance Fee**

Performance Fees for Managed CMBS Accounts are established in each IMA and may vary among the Managed CMBS Accounts.

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Fees and Compensation,” the Advisers are entitled to receive a Promote or Performance Fee, as applicable, based on the performance of Client assets. The Advisers do not currently advise Clients not subject to a Promote or Performance Fee. See “Methods of Analysis, Investment Strategies and Risk of Loss,” and the risk factor “Conflicts of Interest” for further discussion of conflicts of interest.

### **TYPES OF CLIENTS**

The Advisers provide investment advice to LCR Partnership and the Managed CMBS Accounts. LCR Limited Partners and Managed CMBS Account Clients may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the Advisers and their affiliates. These individuals and entities are generally limited to those who are “qualified purchasers” under the Investment Company Act.

LCR Partnership is currently closed to new LCR Limited Partners.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **General**

The Advisers’ objective is to protect and preserve capital in a manner that provides the potential for attractive risk-adjusted returns to their Clients over the long term through dividends and capital appreciation. The Advisers use market knowledge combined with a disciplined credit and due diligence culture in furtherance of their investment program.

#### **Investment and Operating Strategies**

##### **LCR Partnership**

LCR Partnership invests in direct or indirect interests in: (i) primarily first mortgage loans originated or acquired by a Ladder Capital Group affiliate that are secured by commercial real properties located in the United States and otherwise meet the investment criteria set forth in the LCR Partnership Agreement; (ii) any asset acquired by LCR Partnership, any subsidiary or any entity formed in connection with a workout or restructuring (including in connection with a foreclosure or a deed in lieu of foreclosure) of any first mortgage loan acquired by LCR Partnership or any subsidiary pursuant to the LCR Partnership Agreement, or (iii) any other asset acquired by LCR Partnership or any subsidiary in accordance with the terms of the LCR Partnership Agreement. Investments sold to LCR Partnership are approved by LCR Partnership’s

investment committee comprised of representatives from the LCR General Partner and the LCR Limited Partners (“**Investment Committee**”) prior to acquisition.

LCR Partnership may invest in all classes of real estate with a primary focus on anchored retail, industrial, office, multi-residential and senior housing in major markets in the United States. LCR Partnership’s target loan size is \$15-50 million, and the target maximum loan to value ratio is 75% for LCR Partnership’s portfolio in the aggregate and 80% with respect to any individual investment. LCR Partnership targets loans with terms of one to three years. If approved by Investment Committee, LCR Partnership also may invest in any other investments that the Advisers determine in good faith may and are appropriate to be held by or through a real estate investment trust. In general, each investment and corresponding debt incurrence by LCR Partnership is subject to prior approval by Investment Committee.

Subject to the approval of the LCR Limited Partners and Investment Committee, the Advisers may employ leverage on LCR Partnership’s investments to seek to enhance LCR Partnership’s performance.

#### Managed CMBS Accounts

The Managed CMBS Accounts generally invest in investment-grade CMBS having a rating of AAA by either Standard & Poor’s Corporation or Fitch Ratings, or a rating of Aaa by Moody’s Investor Service as of the date that such investment is made on behalf of the Managed CMBS Account.

LCA may employ leverage in managing the Managed CMBS Accounts, and may cause the relevant Client to incur leverage on behalf of the Managed CMBS Account when LCA deems appropriate to seek to enhance the Managed CMBS Account’s performance and enter into interest hedging arrangements with respect to any such leverage; provided that, for purposes of clarity, in order for any leverage to be available with respect to any investment, the Client shall be required to first execute any financing documents required by any provider of such leverage. The amount of leverage, if any, employed by LCA is not expected to exceed 50% of the cost basis of the relevant Managed CMBS Account’s aggregate investments.

#### **Risk of Loss**

An investment in LCR Partnership or the use of Managed CMBS Account services involves a high degree of risk and, therefore, should be undertaken only by qualified investors whose financial resources are sufficient to enable them to assume these risks and to bear the loss of all or part of their investment or account. The following risk factors should be considered carefully, but are not meant to be an exhaustive listing of all potential risks associated with an investment in LCR Partnership or the use of Managed CMBS Account services. Clients should consult with their own financial, legal and tax advisors for advice regarding their investments.

#### Risks Applicable to Real Estate Investments, Generally

**Uncontrollable Factors Affecting Performance and Value.** Investments in the real estate sector are subject to varying degrees of risk. The yields available from such investments generally depend on the structure of the investment and the success of the property or properties

which effectively serve as collateral for such investments as evidenced by the amount of net income earned and capital appreciation generated by such properties. Income from, and the value of, Client investments may be adversely affected by many factors that are beyond Advisers' control, including: adverse changes in national and local economic and market conditions; changes in interest rates and in the availability, costs and terms of financing; changes in generally accepted accounting principles; changes in governmental laws and regulations, fiscal policies and zoning and other ordinances and costs of compliance with laws and regulations; the ongoing need for capital improvements, particularly in older structures; changes in operating expenses; and civil unrest, terrorism, acts of war, nuclear or radiological disasters and natural disasters, including earthquakes, tsunamis and floods, which may result in uninsured and underinsured losses. The economic impact of such events could also adversely affect the credit quality of a Client's investments and the property underlying such investments.

**Credit Crisis and the Downturn in Commercial Real Estate.** In recent years, the real estate markets, including the market for CMBS, as well as global financial markets and the economy generally, have experienced significant dislocations, uncertainty, illiquidity and volatility. Declining real estate values, coupled with diminished availability of leverage and/or refinancings for commercial, multifamily and manufactured housing community real estate have resulted in increased delinquencies and defaults on commercial, multifamily and manufactured housing community mortgage loans. In addition, the downturn in the general economy has affected the financial strength of many commercial, multifamily and manufactured housing community real estate tenants and has resulted in increased rent delinquencies and decreased occupancy. Any continued downturn may lead to decreased occupancy, decreased rents or other declines in income from, or the value of, commercial, multifamily and manufactured housing community real estate, which would also be likely to have an adverse effect on CMBS that are backed by loans secured by such commercial, multifamily and manufactured housing community real estate and thus affect the values of such CMBS. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect a Client's investment performance. The Advisers cannot assure that the dislocation in the real estate markets will not continue to occur or become more severe.

**Interest Rate Fluctuations.** A Client's primary interest rate exposures will relate to the yield on its investments and the financing cost of its debt, if any, as well as any interest rate swaps or other financial instruments or strategies that it utilizes for hedging purposes. Interest rates are highly sensitive to many factors beyond the Advisers' control, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond its control. Interest rate fluctuations present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve and fluctuating prepayment rates, and such fluctuations may adversely affect a Client's performance.

*Selected Risks Applicable to LCR Partnership's Investments in Commercial Real Estate Loans*

**Interim Loans.** LCR Partnership acquires loans secured by first lien mortgages on commercial real estate that provide interim financing to borrowers seeking short-term capital for the acquisition or transition (for example, lease up and/or rehabilitation) of such commercial real estate. These loans, having maturities of three years or less, are generally secured by a transitional asset that has been under-managed and/or is located in a recovering market. If the



market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not be able to repay the interim loan, and LCR Partnership bears the risk that LCR Partnership may not recover some or all of its initial expenditure.

**Non-Recourse Nature of Loans.** Payments under the mortgage loans that LCR Partnership acquires are not insured, and are generally either not guaranteed or should not be considered to be, by any person or entity. These loans are generally nonrecourse loans. If a default occurs, LCR Partnership's remedies generally are limited to foreclosing against the borrower and/or the specific mortgaged properties and other assets that have been pledged to secure the mortgage loan, subject to, in some cases, customary nonrecourse carveouts either to the borrower or its sponsor. Even if a mortgage loan is recourse to the borrower (or if a nonrecourse carveout to the borrower applies), in most cases, the borrower's assets are limited primarily to its interest in the related mortgaged property. Such real property may not be sufficient to protect LCR Partnership from a partial or complete loss if the borrower defaults on the loan. Payment of amounts due under the mortgage loan prior to the maturity date is consequently dependent primarily on the sufficiency of the net operating income of the property. Even if the mortgage loan provides for limited recourse to a principal or affiliate of the related borrower, there is no assurance of any recovery from such principal or affiliate will be made or that such principal's or affiliate's assets would be sufficient to pay any otherwise recoverable claim.

**Enforceability of Loan Documents.** Each of LCR Partnership's mortgages permit it to accelerate the debt upon default by the borrower. The courts of all states will enforce acceleration clauses in the event of a material payment default, subject in some cases to a right of the court to revoke such acceleration and reinstate the mortgage loan if a payment default is cured. The equity courts of any state, however, may refuse to allow the foreclosure of a mortgage, deed of trust, or other security instrument or to permit the acceleration of the indebtedness if the exercise of those remedies would be inequitable or unjust or the circumstances would render the acceleration unconscionable. Thus, a court may refuse to permit foreclosure or acceleration if a default is deemed immaterial or the exercise of those remedies would be unjust or unconscionable or if a material default is cured.

Further, the ability to realize upon mortgage loans may be limited by the application of state and federal laws. Several states (including California) have laws that prohibit more than one "judicial action" to enforce a mortgage obligation. Some courts have construed the term "judicial action" broadly. As a result, the ability to realize upon the mortgage loans may be limited by the application of state laws and may delay or otherwise limit the ability to realize on defaulted mortgage loans.

**Loss of Principal on Maturity Date.** The borrowers under the loans underlying LCR Partnership's investments may be unable to repay their remaining principal balances on their stated maturity dates. These mortgage loans are non-amortizing or partially amortizing balloon loans that provide for substantial payments of principal due at their stated maturities. Balloon loans involve a greater risk to the lender than amortizing loans because a borrower's ability to repay a balloon mortgage loan on its stated maturity date typically will depend upon its ability either to refinance the mortgage loan (although some loans such as those on condominium

projects, may be at least partially self-liquidating) or to sell the mortgaged property at a price sufficient to permit repayment. A borrower's ability to effect a refinancing or sale will be affected by a number of factors. The Ladder Capital Group is not obligated to refinance any of these mortgage loans.

**Losses on Non-Performing Loans.** In the event of any default under loans held by LCR Partnership, LCR Partnership bears the risk of loss of principal and non-payment (and/or late payment) of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the interim loan. The real property securing LCR Partnership's loans is subject to inherent risks that may limit LCR Partnership's ability to recover on a non-performing loan. Such risks include, without limitation, changes in general or local market conditions; changes in the occupancy or rental rates of the property or, for a property that requires new leasing activity, a failure to lease the property in accordance with the projected leasing schedule; limited availability of mortgage funds or fluctuations in interest rates which may render the sale and refinancing of a property difficult; development projects that experience cost overruns or otherwise fail to perform as projected; unanticipated increases in real estate taxes and other operating expenses; challenges to the borrower's claim of title to the real property; environmental considerations; zoning laws; other governmental rules and policies; unanticipated structural defects or costliness of maintaining the property; uninsured losses, such as possible acts of terrorism and a decline in the operational performance of a facility on the real property (such facilities may include multifamily rental facilities, retail facilities, hospitality facilities, healthcare-related facilities, industrial facilities, warehouse facilities, restaurants, mobile home facilities, recreational or resort facilities, arenas or stadiums, religious facilities, parking lot facilities or other facilities). In instances where the borrower is acting as a landlord on the underlying property, the ability of such borrower to satisfy the debt obligation held by LCR Partnership will depend on the performance and financial health of the underlying tenants, which may be difficult for the Advisers to assess or predict. In addition, as the number of tenants with respect to a commercial property decreases or as tenant spaces on a property must be relet, the nonperformance risk of the loan related to such commercial property may increase.

**Construction, Development, Redevelopment, Renovation and Repairs at Mortgaged Properties.** Mortgaged properties underlying LCR Partnership's investments may be currently undergoing, or are expected to undergo in the future, construction, development, redevelopment, renovation or repairs. Any such construction, redevelopment, renovation or repairs may not be completed, may not be completed in the time frame contemplated, or, when and if redevelopment or renovation is completed, such redevelopment or renovation may not improve the operations at, or increase the value of, the subject property. Failure of any of the foregoing to occur could have a material negative impact on the related mortgage loan and/or the value of the related mortgaged property, which could affect the ability of the borrower to repay the related mortgage loan. Additionally, in the event that the related borrower or tenant fails to pay the costs for work completed or material delivered in connection with such ongoing construction, redevelopment, renovation or repairs, the related mortgaged property may be subject to mechanic's or materialmen's liens that may be senior to the lien of the related mortgage loan. Also, the existence of construction or renovation at a mortgaged property may make such mortgaged property less attractive to tenants or their customers or other users and, accordingly, could have a negative impact on net operating income.

**Lack of Skillful Property Management.** The successful operation of a real estate project, including those underlying LCR Partnership's investments, depends upon the property manager's performance and viability. Management errors can, in some cases, impair short-term cash flow and the long-term viability of an income producing property. No representation or warranty can be made by Advisers as to the skills or experience of any present or future managers. Many of the property managers are affiliated with the borrower and, in some cases, such property managers may not manage any other properties. Additionally, there can be no assurance that the related property manager will be in a financial condition to fulfill its management responsibilities throughout the terms of its respective management agreement.

**Borrower Creditworthiness.** The commercial real estate lending business depends upon the creditworthiness of borrowers, which the Advisers, in conjunction with Investment Committee, must judge in acquiring investments for LCR Partnership. They will depend on information obtained from non-public sources in making many decisions related to an LCR Partnership investment, and such information may be difficult to obtain. As a result, the Advisers and Investment Committee may be required to make decisions based on incomplete information or information that is impossible or impracticable to verify. A determination as to the creditworthiness of a prospective borrower is based on a wide range of information including, without limitation, information relating to the form of entity of the prospective borrower, which may indicate whether the borrower can limit the impact that its other activities have on its ability to pay obligations related to the mortgaged property. Even if the Advisers and Investment Committee are provided with full and accurate disclosure of all material information concerning a borrower, they may misinterpret or incorrectly analyze this information which may cause LCR Partnership to purchase loans that it otherwise would not have purchased and, as a result, may negatively impact the value of LCR Partnership's portfolio.

**Limitations of Third Party Reports.** Appraisals and engineering and environmental reports are obtained with respect to each of the mortgaged properties underlying LCR Partnership's investments at or about the time of origination. Appraisals are not guarantees of present or future value. One appraiser may reach a different conclusion than the conclusion that would be reached if a different appraiser were appraising that property. Moreover, the values of the mortgaged properties may have fluctuated significantly since the appraisals were performed. In addition, any engineering report, environmental report, site inspection or appraisal represents only the analysis of the individual consultant, engineer or inspector preparing such report at the time of such report, and may not reveal all necessary or desirable repairs, maintenance, remediation and capital improvement items.

**"Lender Liability" Claims.** In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. The Advisers cannot assure LCR Partnership that such claims will not arise or that they will not be subject to significant liability if a claim of this type did arise.

**Environmental Liability Relating to Underlying Properties.** Liability relating to environmental matters may decrease the value of the properties underlying LCR Partnership's investments and may adversely affect the ability of a borrower to sell such property or real estate instrument related to the property or borrow using such property as collateral and may adversely affect the security afforded by a property for a mortgage loan. Under various federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on, about, under or in its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage asset related to such property. Moreover, some federal and state laws provide that, in certain situations, a secured lender, such as LCR Partnership, may be liable as an "owner" or "operator" of the real property, regardless of whether the borrower or previous owner caused the environmental damage. Therefore, the presence of hazardous materials on certain property could have an adverse effect on LCR Partnership in its capacity as the owner of such property, as the mortgage lender to the owner of such property, or as the holder of a real estate instrument related to such property.

**Insurance.** Insurance on the real estate underlying LCR Partnership's investments may not cover all losses. There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore LCR Partnership's economic position with respect to the affected real property. Any uninsured loss could result in both loss of cash flow from and the asset value of the affected property.

**Bankruptcy and Restructuring.** Although commercial mortgage lenders seek to reduce the risk of borrower bankruptcy through such items as non-recourse carveouts for bankruptcy and special purpose entity /separateness covenants and non-consolidation opinions for borrowing entities, the owners of, and borrowers on, the properties which secure LCR Partnership's investments may still seek the protection afforded by bankruptcy, insolvency and other debtor relief laws. One of the protections offered in such proceedings to borrowers or owners is a stay of legal proceedings against such borrowers or owners, and a stay of enforcement proceedings against collateral for such loans or underlying such securities (including the properties and cash collateral). A stay of foreclosure proceedings could adversely affect the ability of LCR Partnership to realize on its collateral, and could adversely affect the value of those assets. Other protections in such proceedings to borrowers and owners include forgiveness of debt, the ability to create super priority liens in favor of certain creditors of the debtor, the potential loss of cash collateral held by the lender if the lender is over-collateralized, and certain well defined claims procedures. Additionally, the numerous risks inherent in the bankruptcy process create a potential risk of loss by LCR Partnership of its entire investment in any particular investment.

**Liquidity Risk of Commercial Real Estate Loans.** The lack of liquidity in LCR Partnership's investments may significantly impede the Advisers' ability to respond to adverse

changes in the performance of LCR Partnership's portfolio and may adversely affect the value of the portfolio. Such "liquidity risk" may be difficult or impossible to hedge against.

The illiquidity of LCR Partnership's commercial real estate loans and assets may make it difficult to effect a sale of such assets as LCR Partnership may need or desire. Interim loans may be illiquid due to their short life, their potential unsuitability for securitization and the difficulty of recovery in the event of a borrower's default. As a result, the Advisers expect many of LCR Partnership's assets may be illiquid, and if the Advisers are required to liquidate all or a portion of LCR Partnership's portfolio quickly, the Advisers, on behalf of LCR Partnership, may realize significantly less than the value at which such investments were previously recorded, which may fail to maximize the value of the investments or result in a loss.

**Diversification of Underlying Real Properties.** The Advisers are generally not required to observe specific diversification criteria with regard to LCR Partnership's investments. Therefore, LCR Partnership's portfolio may at times have concentrations in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations, as well as borrower concentrations. To the extent that the portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of LCR Partnership's assets within a short time period. Additionally, borrower concentration, in which a particular borrower is or group of related borrowers are associated with multiple real properties securing mortgage loans held by LCR Partnership, may reduce diversification. Diversification also may be limited if LCR Partnership's portfolio is concentrated in a certain commercial or industrial sector or geographic area or if certain of LCR Partnership's loans have outstanding principal balances that are substantially larger than others. A limited degree of diversification increases risk because the aggregate return of LCR Partnership may be substantially adversely affected by the unfavorable performance of even a single loan.

#### *Selected Risks Applicable to the Managed CMBS Account Investments*

**Structured Finance Securities, Generally.** "Structured Finance Securities" are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from or sale proceeds of a specified pool of assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. CMBS are a type of Structured Finance Securities.

Holders of Structured Finance Securities, including Clients who have Managed CMBS Accounts, bear various risks: credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Structured Finance Securities are subject to the significant credit risks inherent in the underlying collateral. The performance of Structured Finance Securities is also dependent on the allocation of principal and interest payments as well as losses among the classes of such securities of any issue, whether underlying collateral assets are revolving or closed-end, whether proceeds from the underlying assets may be reinvested and the applicable redemption features. In addition, concentrations of Structured Finance Securities of a particular type, as well as concentrations of Structured Finance Securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying

collateral located in a specific geographic region, may subject the Structured Finance Securities to additional risk. A portion of a Managed CMBS Account's investments may consist of Structured Finance Securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. Certain of the transactions may have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels, which would reduce or eliminate payments of interest on one or more classes of such securities for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the average life of the more junior securities may lengthen.

**CMBS, Generally.** CMBS are investment grade and below investment grade securities backed by obligations (including certificates of participation in obligations) principally secured by commercial mortgage loans. Accordingly, investments in CMBS are subject to the various risks described herein which relate to the pool of underlying loans in which the CMBS represents an interest. See "Selected Risks Applicable to LCR Partnership's Investments in Commercial Real Estate Loans" above for more information. The market value of a Managed CMBS Account's CMBS investments could also fluctuate materially over time as the result of changes in mortgage spreads, treasury bond interest rates, capital market supply and demand factors, and many other factors which affect high-yield fixed income products. These factors are out of LCA's control. The Managed CMBS Account will bear the risk of loss on any CMBS it purchases.

**Reliance on Special Servicers.** The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage loans underlying CMBS may be highly dependent on the performance of the applicable directing certificate-holder and special servicer. With respect to each series of CMBS in which LCA may invest on behalf of the Managed CMBS Accounts, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificate-holder" or a "controlling class representative," which is appointed by the holders of the most subordinate class of CMBS in such series. LCA does not have the right to appoint the directing certificate-holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate-holder, take actions with respect to the specially serviced mortgage loans that could adversely affect the CMBS held by the Managed CMBS Accounts. However, the special servicer is not permitted to take actions that are prohibited by law or violate the applicable servicing standard or the terms of the underlying mortgage loan documents.

**Credit Ratings.** Some of a Managed CMBS Account's investments may be rated by one or more of Moody's Investors Service, Fitch Ratings, Standard & Poor's Investors Service, Inc. or another Nationally Recognized Statistical Rating Organization (each, a "**Rating Agency**," and collectively, "**Rating Agencies**"). Any credit ratings on such Managed CMBS Account's investments are subject to ongoing evaluation by Rating Agencies, and LCA cannot assure its Managed CMBS Account Clients that any such ratings will not be changed or withdrawn by a Rating Agency in the future if, in its judgment, circumstances warrant. If Rating Agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of a Managed CMBS Account's investments in the future, the value of these investments could significantly decline, which would adversely affect the value of such

Managed CMBS Account and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to such Managed CMBS Account.

**Liquidity Risk of CMBS.** The CMBS in which a Managed CMBS Account may invest may have no, or only a limited, trading market. The financial markets in the past have experienced and could in the future experience a period of volatility and reduced liquidity which may reoccur or continue and reduce the market value of CMBS. Some or all of the CMBS held by a Managed CMBS Account may also be subject to restrictions on transfer and may be considered illiquid. Some of the securities that LCA purchases on behalf of the Managed CMBS Accounts will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. Such “liquidity risk” may be difficult or impossible to hedge against.

The lack of liquidity in a Managed CMBS Account’s investments may significantly impede LCA’s ability to respond to adverse changes in the performance of such Managed CMBS Account or make it difficult for LCA to effect a sale of such assets as the Client may need or desire. As a result, if LCA is required to liquidate all or a portion of the Managed CMBS Accounts quickly, LCA may realize significantly less than the value at which such investments were previously recorded, which may fail to maximize the value of the investment or result in a loss.

**Mortgage Loan Prepayment.** The value of Managed CMBS Account investments may be affected by prepayment rates on mortgage and other real estate-related loans. When acquiring CMBS on behalf of the Managed CMBS Accounts, LCA anticipates that the underlying mortgages will prepay at a projected rate generating an expected yield. If a Managed CMBS Account purchases assets at a premium to par value, when borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because the Managed CMBS Account will have to amortize the related premium on an accelerated basis. Conversely, if Managed CMBS Accounts purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because the Managed CMBS Account will not be able to accrete the related discount as quickly as originally anticipated.

Prepayment rates on loans are influenced by a number of factors, including, but not limited to, changes in market interest rates, the availability of loan modification or loan refinancing programs and a variety of economic, geographic and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate the Managed CMBS Accounts from prepayment or other such risks. In periods of declining interest rates, prepayment rates on mortgage and other real estate-related loans generally increase. If interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by LCA on behalf of the Managed CMBS Accounts in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of the assets may, because of the risk of prepayment, benefit less than other fixed income securities from declining interest rates. Under certain interest rate and

prepayment scenarios the Managed CMBS Accounts may fail to recoup fully the cost of acquisition of certain investments.

### *Risks Applicable to Advisers' Services*

**Financial Projections.** In addition to other analytical tools, the Advisers use financial models to evaluate loans and real estate assets. The accuracy and effectiveness of such models cannot be guaranteed. In all cases, projections are only estimates of future results which are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained and actual results may vary significantly from the projections. General economic and industry-specific conditions, which are not predictable, can have an adverse impact on the reliability of projections.

**Leveraged Financing of Investments.** The Advisers do and may in the future employ financial leverage on Client assets to seek to enhance Client returns. Such borrowings may take the form of bank credit facilities or repurchase agreements. Such agreements may include a recourse component. Further, such borrowings may also provide the lender with the ability to make margin calls and may limit the length of time during which any given asset may be used as eligible collateral. The use of leverage by a Client could result in a substantial loss to that Client which would be greater than if the Client were not leveraged.

In addition, Clients' access to financing may be limited and thus the Adviser's ability to maximize returns may be adversely affected. Client access to financing will depend upon a number of factors over which the Advisers have little or no control, including:

- general market conditions;
- the market's view of the quality of the Client's assets;
- the market's perception of the growth potential of the Client's assets; and
- the Client's current and potential future earnings and cash distributions

The current dislocation and weakness in the capital and credit markets could cause one or more lenders to be unwilling or unable to provide Clients with financing or to increase the costs of that financing. In addition, if regulatory capital requirements imposed on private lenders change, they may be required to limit, or increase the cost of, financing they provide to Clients. In general, this could potentially increase Clients' financing costs and reduce their liquidity or require them to sell assets at an inopportune time or price. The Advisers cannot assure the Clients that they will have access to debt on favorable terms (including, without limitation, cost and term) at the desired times, or at all.

**Fair Value of Assets.** The Advisers expect that the value of some of the Clients' investments may not be readily determinable. The Advisers will value these investments quarterly at fair value, as determined in accordance with Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." Because such valuations are subjective, the fair value of certain of a Client's investments may fluctuate over short periods of time and the Advisers' determinations of fair value may differ materially from the values that would have been used if a ready market for these assets existed. The Advisers' determinations of fair value may have a material impact on a Client's investment performance.



In many cases, the Advisers' determination of the fair value of the Clients' investments will be based on valuations provided by third-party dealers and pricing services. Valuations of certain of its assets are often difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Additionally, a Client's investment performance for a given period could be adversely affected if the Advisers' determinations regarding the fair value of these investments were materially higher than the values that such Client ultimately realizes upon their disposal.

**Conflicts of Interest.** The Advisers are subject to conflicts of interest arising out of their relationship with Holdings and its affiliates. Each of the Advisers' executive officers serves as an officer of the Ladder Capital Group. The Advisers' executive officers may have conflicts between their duties to the Clients and their duties to, and interests in, the Ladder Capital Group and its affiliates, which make proprietary investments similar to investments typically made by the Clients. The Ladder Capital Group will not be obligated to dedicate any of its other executive officers or personnel exclusively to the Advisers. In addition, none of the Ladder Capital Group, its executive officers or other personnel will be obligated to dedicate any specific portion of its or their time to the Advisers' business. As a result, these individuals will have competing interests for their business time and attention. Further, if and when there are turbulent conditions in the real estate markets or distress in the credit markets or other times when the Advisers will need focused support and assistance from their executive officers, the attention of the Ladder Capital Group's personnel and executive officers and the resources of the Ladder Capital Group may also be required by other affiliates. The Advisers will compete with the Ladder Capital Group in the future for the time and attention of these officers. However, the indirect ownership by Holdings of a portion of the LCR Partnership, as well as Holdings' indirect interest in the Promote operate to align, to some extent, the interest of the Advisers with the interest of LCR Partnership.

Further, the Ladder Capital Group's officers or directors may be involved in other businesses related to the commercial real estate industry, and the Ladder Capital Group and Advisers may wish to invest in commercial real estate-related instruments or properties affiliated with such persons both for the Ladder Capital Group's own account and for those of the Advisers' Clients. Potential conflicts of interest may exist in such situations, and as a result, the benefits to Clients of such investments may be limited. The Ladder Capital Group does not have a policy that expressly prohibits its directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any transaction in which the Ladder Capital Group has an interest or engaging for their own account in business activities of the types conducted by the Ladder Capital Group.

The Advisers purchase loans from the Ladder Capital Group on behalf of LCR Partnership. Such transactions may not be the result of arm's length negotiations and may involve conflicts between LCR Partnership's interests and the interests of the Ladder Capital

Group in obtaining favorable terms and conditions. There can be no assurance that any procedural protections, including, review and pre-approval of investments by Investment Committee, will be sufficient to assure that these transactions will be made on terms that will be at least as favorable to LCR Partnership as those that the Advisers would have obtained in an arm's length transaction. LCR Partnership generally may not enter into transactions unrelated to loan purchases with Ladder Capital Group affiliates without the unanimous consent of the LCR Limited Partners, as described in the LCR Partnership Agreement.

Clients may be competing with the programs, funds, vehicles, managed accounts, ventures or other entities that the Ladder Capital Group may currently own or may form or sponsor in the future for access to the benefits that the relationship with the Ladder Capital Group provides to the Advisers, including access to investment opportunities. While the Advisers attempt to allocate investment opportunities in a fair and equitable manner for Clients, there may be conflicts of interest in allocating investment opportunities to Clients, the Ladder Capital Group and future programs, funds, vehicles, managed accounts, ventures or other entities owned and/or managed by the Ladder Capital Group. In addition, subject to any exclusivity rights granted to a Client, there is no restriction on the Ladder Capital Group on forming, sponsoring, owning and/or managing additional investment entities that have overlapping investment objectives with the Clients and could compete with Clients for additional opportunities, subject to the Advisers' investment allocation policies (described below under "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading"). The activities of the Ladder Capital Group vehicles could restrict the Advisers' ability to pursue certain asset acquisitions or take other actions related to their investment advisory services for Clients.

In instances where a Client holds CMBS, the master servicer, special servicer or sub-servicer or any of their respective affiliates may have interests in, or other financial relationships with, borrowers under related mortgage loans. Such relationships may create conflicts of interest that negatively impact the value of such CMBS.

Since the Advisers are permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Client investments, the Advisers could have a conflict of interest in connection with approving transactions. The existence of a Promote or Performance Fee may create an incentive for the Advisers to approve, and cause Clients to make, more speculative investments than the Advisers would otherwise make in the absence of such performance-based compensation. Transactions between the Ladder Capital Group and Clients will only be effected in accordance with Advisers Act requirements, including applicable Client consents.

#### **DISCIPLINARY INFORMATION**

The Advisers and their management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

LCA is affiliated with the LCR General Partner, which acts as the general partner of LCR Partnership and is registered with the SEC under the Advisers Act pursuant to LCA's registration in accordance with SEC guidance. LCA and the LCR General Partner operate together as a single investment advisory business with regard to LCR Partnership.

Ladder Capital Securities LLC, a Delaware limited liability company, is a registered broker-dealer, a FINRA/SIPC member and an affiliate of LCA. LCA does not currently intend to utilize the services of Ladder Capital Securities LLC in connection with securities transactions on behalf of the Clients.

Ladder Capital Finance LLC, a Delaware limited liability company and an affiliate of LCA, may act as a sponsor and mortgage loan seller for one or more CMBS securitization trusts. LCA does not currently intend to invest on behalf of Clients in CMBS issued by such trusts.

Affiliates of the Advisers may recover certain additional fees as described below under "Client Referrals and Other Compensation."

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Advisers have adopted the Ladder Capital Group Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Ladder Capital Group principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Ladder Capital Group personnel to report their personal securities transactions, prohibits or requires pre-clearance for Ladder Capital Group personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Ladder Capital Group personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Advisers' Chief Compliance Officer and compliance with other applicable precedents. A copy of the Code will be provided to any Clients and LCR Limited Partners upon request to the Advisers' Chief Compliance Officer, at 212-715-3170. Personal securities transactions by Ladder Capital Group employees who manage Client accounts are required to be conducted in a manner that prioritizes the Client's interests in Client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect a decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a Client of the Advisers. Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers are prohibited from communicating such information to Clients, and the Advisers have no responsibility or liability for failing to disclose such information to Clients as a result of following their policies and procedures designed to

comply with applicable law. Similar restrictions may be applicable as a result of the Advisers' personnel serving as directors of public companies and may restrict trading on behalf of Clients, including LCR Partnership.

Clients may invest together with other vehicles advised by an affiliated adviser of the Advisers or other Ladder Capital Group entities in the manner set forth in their operative documents. The Advisers determine the allocation of investment opportunities in a manner that they believe is fair and equitable to their Clients consistent with the Advisers' obligations and may take into consideration factors, including those set forth in any investment allocation policy, such as the following: available capital, a Client's investment restrictions and objectives (including those set forth in the relevant Client's governing documents, where applicable), investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk. The Advisers and their affiliates may participate in such allocations based on the same factors, including available capital, which may present a conflict of interest. The Advisers' allocation policies attempt to mitigate conflicts based on allocating under the factors described above.

Holdings, through its wholly-owned subsidiaries, indirectly owns an interest in LCR Partnership. In addition, the Advisers and their affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who are not Clients, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for Clients even though their investment objectives may be the same or similar.

The Advisers purchase loans from the Ladder Capital Group on behalf of LCR Partnership. See "Conflicts of Interest" above for more information.

### **BROKERAGE PRACTICES**

Although the Advisers do not intend to regularly engage in public securities transactions on behalf of Clients, to the extent they do so, the Advisers follow the brokerage practices described below.

If an Adviser buys or sells publicly traded securities, including CMBS, for a Client, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Adviser. In such event, the Adviser seeks to select brokers on the basis of best price and execution capability. In selecting a broker to execute Client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commission rates and/or commission equivalents (such as mark-ups or mark-downs) charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate and/or commission equivalent applicable to any particular Client transaction or to select any broker on the basis of its purported or "posted" commission rate and/or commission equivalent, but endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting Client transactions to the extent

consistent with the interests of such Clients. Although the Advisers anticipate that they would, in the context of any public securities transactions, generally seek competitive commission rates and/or commissions, they also anticipate that they might not necessarily pay the lowest commission or commission equivalent. Such transactions might involve may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking best execution, an Adviser may cause a Client to pay a higher commission or commission equivalent than another broker-dealer might have charged for research and/or brokerage services provided by the broker-dealer that provide lawful and appropriate assistance to the Adviser in the investment decision-making or trade execution processes in recognition of research furnished by them, although the Advisers have not made use of such services to date.

To the extent that the Advisers allocate brokerage business on the basis of research services, they may have an incentive to select or recommend broker-dealers based on their interest in receiving such research or other products or services, rather than based on their Clients' interest in receiving most favorable execution.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Clients are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Clients simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several Client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Client is favored over any other Client. When an aggregated order is filled in its entirety, each participating Client generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Client participating in such buy or sell order in accordance with the amount of securities originally requested for such Client.

Each Client generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Clients over time.

## **REVIEW OF ACCOUNTS**

It is the Advisers' responsibility to ensure that they are managing each Client's investments in accordance with the investment objectives and guidelines applicable to such Client. The Ladder Capital Group Head of Asset Management bears the primary responsibility for confirming that the Advisers manage Client assets in accordance with such investment

objectives and guidelines. The Advisers' Chief Compliance Officer periodically will check to confirm that Client assets are being managed in accordance with such stated objectives.

The LCR General Partner provides to the LCR Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements for LCR Partnership, (ii) annual tax information necessary for each LCR Limited Partners' tax return and (iii) quarterly reports of: (1) LCR Partnership's business and activities; (2) a description of all investments held by LCR Partnership (including a summary status of each such investment); and (3) a summary of the material terms of any transactions with Ladder Capital Group affiliates.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers (or their affiliates) may receive origination, application or other similar fees in respect of LCR Partnership's investments, which such fees shall be paid to and retained by the Advisers or their affiliates without offset against the Management Fee. See "Fees and Compensation."

From time to time, the Advisers may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a person or entity becoming a Client of the Advisers. Any fees and expenses payable to such third parties typically would be borne by the Advisers indirectly through an offset against the Management Fee.

#### **CUSTODY**

The Advisers maintain custody of the Clients' investments held in each Client's name with the following qualified custodians:

- Wells Fargo Bank, N.A., Mortgage Document Custody (CMBS), 1055 10th Ave SE, Minneapolis, Minnesota 55414
- TD Bank, N.A., 317 Madison Avenue, New York, New York 10017
- Wells Fargo Securities, LLC, 550 South Tryon Street, MAC# D1086-070, Charlotte, NC 28202

#### **INVESTMENT DISCRETION**

The Advisers have discretionary authority to manage the investments on behalf of the Managed CMBS Accounts pursuant to the investment guidelines contained in, and the powers of attorney granted by, the investment advisory agreements, as described above under "Methods of Analysis, Investment Strategies and Risk of Loss."

#### **VOTING CLIENT SECURITIES**

The Advisers have adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for each Client's investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Clients, including where there may be material conflicts of interest in voting proxies.

Clients generally cannot direct the Advisers' vote. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the relevant Client on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Clients. If you would like a copy of the Advisers' complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact the Advisers' Chief Compliance Officer at 212-715-3170 and it will be provided to you at no charge.

#### **FINANCIAL INFORMATION**

The Advisers do not require prepayment of Management Fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.