

## I. Cover Page

# Form ADV

7 September 2013

## Part 2A

---

### Claros Fund Management LLC

CRD/IARD#: 167609  
60 Columbus Circle, 20th Floor  
New York, NY 10023  
212-515-3246  
212-515-3284...fax  
IR@clarosfund.com

---

**This brochure (“Brochure”) provides information about the qualifications and business practices of Claros Fund Management LLC (referred to in this Brochure as either “Claros Fund Management” or “CFM”). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about CFM is also available on the SEC’s Investment Adviser Public Disclosure (“IAPD”) which can be found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

The format/layout of this Brochure has been mandated by the SEC. As such, the Brochure’s table of contents can be found after the “Material Changes” section of this Brochure, not at the beginning of the Brochure. The main sections and any relevant subsections appearing under each main heading shall follow the ordering as set forth in the instructions and guidance issued by the SEC in regard to Part 2A of the Form ADV. CFM’s response to each such item shall immediately follow each numbered item. We encourage any reader of this Brochure to also refer to the SEC’s instructions and guidance related to Part 2A of the Form ADV. If you have any questions about the contents of this Brochure, please contact us at 212-515-3246 or IR@clarosfund.com. Throughout this Brochure, any references to “we,” “our,” “ours,” “us,” etc. are meant to refer to CFM.

## **II. Material Changes**

---

Filing date of last annual ADV update: N/A.

CFM has not completed its first fiscal year while maintaining an active registration as an investment adviser and, therefore, it has not needed to file an annual ADV update. As such, CFM has no material changes to report in regard to its Form ADV.

### III. Table of Contents

---

II. Material Changes .....	2
III. Table of Contents.....	3
IV. Advisory Business .....	5
Item IV.(A). CFM at a Glance .....	5
Firm Profile / History.....	5
IV.(B). CFM’s Advisory Services.....	5
IV.(C). Customization of Advisory Services .....	5
IV.(D). Wrap Fee Program Participation .....	5
IV. (E). Assets Under Management (“AUM”).....	6
V. Fees and Compensation .....	6
V.(A). CFM Advisory Fees.....	6
V.(B). Fee Collection Process .....	6
V.(C). Other Fee/Expenses.....	7
V.(D). Fees Charged in Advance .....	7
V.(E). Additional Compensation.....	7
VI. Performance-Based Fees and Side-By-Side Management .....	7
VII. Types of Clients .....	7
VIII. Methods of Analysis, Investment Strategies and Risk of Loss .....	8
VIII.(A). Methods of Analysis and Strategies .....	8
VIII.(B). Material Risks .....	9
VIII.(C). Investment-Specific Risks.....	12
IX. Disciplinary Information .....	14
X. Other Financial Industry Activities and Affiliations.....	14
X.(A). Broker-Dealers.....	14
X.(B). Futures Commission Merchants, Introducing Brokers, Commodity Trading Advisors, Commodity Pool Operators.....	14
X.(C). Other Related Persons .....	15
Investment Vehicles.....	15
Affiliated Fund Sponsor.....	15
Conflicts of Interest .....	15
How we Address Conflicts of Interest .....	17
X.(D) Use of Other Investment Advisers .....	18
XI. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	18
XI.A Code of Ethics .....	18
XI.(B) Participation in Client Trading.....	19
XI.(C) Trading Alongside Our Clients.....	19
XI.(D) Trading Around the Same Time as Clients.....	19

XII. Brokerage Practices.....	20
XII.(A).(1). Research and Soft Dollar Benefits.....	20
XII.(A).(2). Brokerage for Client Referrals.....	20
XII.(A).(3). Directed Brokerage.....	20
XII.(B). Order Batching .....	20
XIII. Review of Accounts.....	21
XIII.(A). Review of Accounts.....	21
XIII.(B). Non-Periodic Account Reviews.....	21
XIII.(C). Reports to Clients.....	21
XIV. Client Referrals and Other Compensation.....	21
XIV.(A). Compensation we Receive.....	21
XIV.(B). Compensation we Pay.....	21
XV. Custody .....	21
XVI. Investment Discretion.....	22
XVII. Voting Client Securities .....	22
XVII.(A). Proxy Voting .....	22
Proxy Voting Policies and Procedures and Client Instruction .....	22
How to obtain our proxy voting record.....	23
XVII.(B). Proxy Voting .....	23
XVIII. Financial Information.....	23
XIX. Requirements for State-Registered Advisers.....	23

---

## **IV. Advisory Business**

---

### **Item IV.(A). CFM at a Glance**

---

#### **Firm Profile / History**

CFM was formed on April 16, 2013 in order to take over the business of Claros Management, L.P., which managed the Claros Real Estate Securities Fund, L.P. (and its feeder funds) since 2004. CFM is controlled by Richard Mack and Claros Fund Holdings LLC. Richard Mack and Claros Fund Holdings LLC are the only two parties that directly or indirectly maintain at least 25% ownership interest in CFM.

CFM's primary business activities involve the active management of securities portfolios through one or more pooled investment vehicles ("Investment Vehicles"). CFM's primary asset management focus is on the trading of certain asset-backed securities, dealing primarily with commercial mortgage-backed securities ("CMBS") and other similar or related instruments.

### **IV.(B). CFM's Advisory Services**

---

CFM's principal business activities focus on the management of one or more private funds that focus on the management of securities and other financial instruments and transactions consistent with the investment strategies, objectives and Investment Management Agreement ("Management Agreement") of each Client (as defined below in Item VII). Financial instruments in which the Investment Vehicles may transact include but are not limited to (i) CMBS, (ii) whole loans, (iii) commercial real estate corporate debt and loans, (iv) mezzanine loans, (v) commercial real estate mortgage loans, (vi) recapitalization and restructuring of real estate property, (vii) acquisitions of real property, (viii) non-performing loans, and (ix) real estate investment trust ("REIT") equity and debt securities. In connection with certain investments, CFM may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices, and currency exchange rates and may employ leverage in connection with investment activities on behalf of its Clients. The investments of certain CFM-managed Investment Vehicles are subject to diversification and geographic limitations as set forth in the relevant governing documents specific to each Investment Vehicle, as well as limitations on the amount of leverage that CFM may utilize in connection with the investment activities of any such Client.

CFM may also seek out additional, strategic investment opportunities on behalf of its Clients in a manner consistent with each Client's investment objectives.

CFM generally possesses full discretionary authority with respect to the investment decisions of its Clients; however, CFM's advice is provided in accordance with the investment objectives and guidelines set forth in each Client's governing documents and Management Agreement.

### **IV.(C). Customization of Advisory Services**

---

As described above, CFM's advisory services are tailored to meet the specific investment objectives and requirements set forth in the governing documents (i.e. partnership agreement, operating agreement, charter, etc.) and the Management Agreement for each Client. The overall investment needs, strategy, and focus are set forth in such documents, and CFM's advisory services is specifically geared toward meeting the investment objectives of each Client. As an example, for various tax, regulatory, or economic purposes, CFM may form one or more special purpose entities in order to facilitate portfolio investments on behalf of its Clients. The process of structuring such entities to meet these individualized needs varies from Client to Client.

### **IV.(D). Wrap Fee Program Participation**

---

None of CFM's investment advisory services involve the use of wrap programs.

## **IV. (E). Assets Under Management (“AUM”)**

---

As of July 31, 2013, CFM had approximately \$508,784,362 of client regulatory assets under management. As of that date, CFM managed \$508,784,362 on a discretionary basis and \$0 on a non-discretionary basis.

## **V. Fees and Compensation**

---

### **V.(A). CFM Advisory Fees**

---

CFM’s fee schedule generally involves an annual asset-based management fee (“Management Fee”). Under certain circumstances, CFM may also be eligible to collect an annual performance-based fee or allocation of profits (“Performance Fee”) in lieu of or in addition to its annual asset-based Management Fee. Specific fee arrangements are set forth in each Investment Vehicle’s offering materials (i.e., PPM) and the relevant Management Agreement(s) executed between CFM and any of its Clients. However, CFM’s general fee arrangements are typically structured as one of or a combination of more than one of the fee types described below.

#### **Management Fee**

CFM’s annual Management Fee generally ranges from 1.0% - 1.50% of net assets annually and is typically charged on a quarterly basis, in advance. The quarterly management fee is based on the overall market value of the portfolio as of the first calendar day of the quarter to which the fee relates (i.e., Q2 quarterly management fees are based on the portfolio value as of 1 April and cover the period of April – June). The portfolio value on which the fee is based is adjusted for any new subscriptions or redemptions during that same period. Specific Management Fee arrangements are set forth in each individual Client’s PPM and relevant Management Agreement.

#### **Performance Fee**

CFM may also earn an annual Performance Fee (sometimes called a “carried interest” or a “promote”) that is generally calculated as a percentage (typically at an annual rate of 20.0%) of the net profits achieved by the Client. CFM’s Performance Fees are generally calculated and assessed after the deduction of all expenses, management fees (if any), and any specially allocated items of profit and loss (if any). Ordinarily, CFM’s Performance Fee arrangements involve a high water mark or loss carry forward provision, prohibiting CFM from receiving a Performance Fee until previous losses have been recovered. The specifics of CFM’s performance fee arrangements are set forth in greater detail in the applicable PPM and relevant Management Agreement.

#### **Fee Negotiability**

In certain cases, CFM has the discretion to waive or modify the application of certain provisions (including those related to management fees, carried interest, transparency, and withdrawals) of the constitutional documents for each Client (that is an Investment Vehicle) with respect to an investor in such Investment Vehicle without obtaining the consent of any other investor. CFM generally waives all Management and Performance Fees attributable to CFM principals, employees, and affiliates, as well as for their respective family members.

### **V.(B). Fee Collection Process**

---

As described above, CFM’s Management Fees are generally calculated and payable in advance, and Performance Fees are generally calculated and payable in arrears.

## **V.(C). Other Fee/Expenses.**

---

Investment Vehicles managed by CFM generally bear all expenses related to their investments and operations, including, by way of example, fees, costs and expenses directly related to the purchase and sale of their investments, taxes, fees of auditors, administrators, custodians and legal counsel, fees of consultants, expenses of directors, advisory boards and annual meetings, insurance, litigation expenses, and any extraordinary expenses. Please also see “Brokerage Practices” in Item XII below.

## **V.(D). Fees Charged in Advance**

---

As described above, CFM’s Management Fees are generally assessed and collected in advance. If an investor redeems all or part of their investment, CFM shall refund the investor’s pro rata share of unearned fees which will be paid with the redemption proceeds.

## **V.(E). Additional Compensation**

---

Item V.(E) requires us to address situations in which we or any of our supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Neither we, nor any of our supervised persons are party to any such arrangements.

# **VI. Performance-Based Fees and Side-By-Side Management**

---

To supplement our discussion of fees and compensation contained in Item V.(A) above, for certain of our Clients, we charge performance fees. Performance fee arrangements may vary from Client to Client, and we only charge a performance-based fee or allocation in relation to assets for a Client meeting the minimum criteria for being charged performance-based fees. Currently, CFM does not manage any accounts that do not have a performance-based fee, such as accounts that pay only an asset-based fee.

A primary concern with the use of performance-based fees is that they may create an incentive for a firm to engage in riskier investment behavior due to the higher return potential associated with many high-risk investments. Additionally, a firm may have the incentive to favor (i.e., spend more time and resources or allocate specific assets anticipated to be more profitable than others) assets subject to a performance-based fee over assets not covered by a performance-based fee, or subject to a lower fee, in order to maximize the potential fee revenue from the assets producing the performance fees.

In an effort to deal with the types of conflicts presented in this section, we regularly monitor our investment management activity for the purpose of not only reviewing for the appropriateness of the transactions but also the appropriateness of the overall fees paid by a Client. Our review process in this regard is carried out on no less than an annual basis, and generally we review Client assets for this purpose on a quarterly basis.

# **VII. Types of Clients**

---

CFM currently advises, and expects in the future to advise, only clients that are non-natural persons. CFM does not deal directly with natural person clients (i.e., individual human beings). CFM expects to provide its advisory services exclusively to commingled Investment Vehicles.

In the United States, Investment Vehicles managed by CFM ordinarily take the form of limited partnerships or limited liability companies. Outside of the United States, CFM may utilize other similarly structured entities to serve as the Investment Vehicles that it may manage.

Unless stated otherwise in this Brochure, the types of client relationships described above (i.e., commingled, private Investment Vehicles) collectively are referred to as “Clients” or individually as a “Client” for the purpose of this Brochure.

CFM does not impose a standard set of minimum fees or other conditional requirements for any Client relationships. For additional fee-related information, refer back to Item V.(A).

## **VIII. Methods of Analysis, Investment Strategies and Risk of Loss**

---

### **VIII.(A). Methods of Analysis and Strategies**

---

#### **Methods of Analysis**

In the course of our management process and as appropriate on a case by case basis, we employ some or all of the following methods of analysis.

##### *Charting / Technical*

The terms “charting” and “technical” analysis are generally used synonymously and therefore, for the purpose of this Brochure, we use the term, “technical analysis.” In most cases, technical analysis involves the evaluation of historical market data such as price and volume of a particular security or investment instrument. Technical analysis often involves the use of charts, graphs, and other tools to evaluate historical factors relating to the investment instrument and perhaps the market as a whole. The goal of technical analysis is to try to identify historical trading patterns that suggest future trading activity or price targets.

##### *Fundamental*

Fundamental analysis is generally the considered the opposite approach to technical analysis. Fundamental analysis involves the attempt to identify the intrinsic value (i.e., the actual, true/real value) of an investment instrument by examining any related economic, financial, and other quantitative and qualitative factors relevant to that instrument. Fundamental analysis can take into account anything that may impact the underlying value of the instrument. Examples of such things may include large-scale economic issues such as the overall condition or current cycle of the economy, industry-specific or sector-specific conditions, etc. Other company/issuer-specific factors may also be taken into consideration such as the company’s/issuer’s current financial condition, management experience and capabilities, legal/regulatory matters, the overall type and volume of current and expected business, etc.

One of the goals of fundamental analysis is to attempt to derive a value that can be compared to the current market price for a particular financial instrument in hopes of determining whether the instrument is overpriced (time to sell) or underpriced (time to buy).

##### *Cyclical*

Cyclical analysis involves the evaluation of an investment instrument or its issuer for the purpose of identifying whether (and if so, to what extent) it or they may be impacted by fluctuations in the overall economic conditions over time. As an example, as more and more people lose their jobs, consumer-based industries like housing or the automotive industry can be negatively impacted because consumers are less able to purchase things like homes and automobiles.

##### *Creditworthiness and Collateral*

CFM evaluates the creditworthiness of any counterparty to the transactions it facilitates on behalf of one of its Investment Vehicles. CFM also analyzes (to the extent possible and practical) the creditworthiness of the tenants in the properties that may represent the underlying collateral or other assets underpinning the securities traded on behalf of one of CFM’s Investment Vehicles. Evaluation of collateral performance and value is critical to gaining an understanding of the potential residual or recovery value of an instrument in the event its issuer becomes insolvent.



## **Strategy**

Investing in securities or other investment products involves the risk of loss and all clients should be prepared to bear such losses.

As part of the general strategy of CFM in relation to its Investment Vehicle clients, CFM seeks to build a diversified portfolio of “story” and distressed real estate debt securities across commercial real estate debt types, and to exit the investments opportunistically as the credit issues associated with them are resolved. Securities are referred to as “story” when they have fallen out of favor with investors due to a variety of factors that may include tenant credit issues or property operating issues. “Distressed” investments are debt securities that are under-performing or non-performing due to insufficient cash-flow from the underlying collateral. CFM also opportunistically invests in cash and synthetic securities where arbitrage and convergence opportunities exist. CFM may utilize property market relationships and investment partnerships to source investments and gather property market information to support its investment underwriting, portfolio management, and disposition analyses.

CFM’s property and credit-driven strategy focuses on credit-based investment opportunities for which CFM’s real estate and capital markets knowledge and expertise provide a competitive edge in pricing the investments. An Investment Vehicle may invest in diverse categories of debt and equity securities backed primarily by commercial real estate. These investments may include, but are not limited to, the following investment grade and below-investment grade securities: (i) CMBS; (ii) corporate debt issued by publicly traded REITs and real estate companies (“REIT Debt”); (iii) CRE CDOs; (iv) credit-tenant lease backed debt instruments (“CTL Debt”); (v) subordinated interests in first mortgage loans (“B-Notes”) and mezzanine loans; (vi) synthetics backed by CMBS, including CMBX, single name credit default swaps (“CDS”) and total return swaps on CMBS indices; (vii) REIT equities; and (viii) CRE-related equities. In aggregate, these markets represent over \$3 trillion of outstanding securities and notes.

Assets for Investment Vehicles may span several investment categories in an effort to maximize returns and minimize portfolio credit and market risk. Such assets may also be diversified geographically and by asset type and duration. CFM employs a disciplined and opportunistic investment process. Accordingly, the relative proportions of an Investment Vehicle’s investments falling within each of the investment types and other diversification matrices may vary over the life of the Investment Vehicle.

CFM seeks to hedge and mitigate investment risks (other than credit and real estate risks) to the extent practical in light of an Investment Vehicle’s overall objectives. Leverage is utilized in a prudent and conservative manner, typically of one times but no more than three times an Investment Vehicle’s total capital. Leverage is generally utilized at two-thirds to three-quarters of available asset borrowing levels to provide a cushion against potentially adverse marks-to-market. Matched-term funding structures are used, where possible, to minimize refinancing risk. CFM uses interest rate hedging instruments to manage interest rate exposure and the duration gap between assets and liabilities. A portion of each Investment Vehicle’s assets are expected to be relatively liquid, high-grade securities which, in combination with planned maintenance of excess borrowing capacity under its secured funding arrangements, will be available to meet liquidity needs. Portfolio diversity is ordinarily managed by investing across categories of real estate debt securities that may be imperfectly correlated.

## **VIII.(B). Material Risks**

---

The following list identifies and describes the most common risks associated with CFM’s investment analysis methods and strategies. Depending on any individual Investment Vehicle managed by CFM, different or additional risk factors than those described below may apply. More detailed and specific risk factors are addressed in the offering documents of each individual Investment Vehicles. There is no guarantee that the investment strategies used by CFM will be effective, and each investor should evaluate his or her ability to maintain any investment in light of his or her own investment time horizon.

### **Strategy Risks**

CFM concentrates on investing in distressed commercial real estate securities. Values in this sector are affected by a number of factors, including changes in the general economic climate, local conditions (such as an oversupply of space or a reduction in demand for space), the quality of management, competition based on rental rates,

attractiveness and location of the properties, financial condition of tenants, buyers and sellers of properties, quality of property maintenance, insurance and management services, and changes in operating costs. Values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. While direct real estate investment is not intended to be CFM's focus, these factors may influence the value of the real estate underlying the securities in which the Investment Vehicles invest.

### *Distressed Securities*

Securities and other obligations of companies that are experiencing significant financial or business distress, including companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or other reorganization and liquidation proceedings present considerable risks. Many of these instruments ordinarily remain unpaid unless and until such companies reorganize and/or emerge from bankruptcy proceedings, and as a result may have to be held for an extended period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies or sovereign issuers experiencing significant business and financial distress is unusually high.

The completion of debt and/or equity exchange offers, restructurings, reorganizations, mergers, takeover offers and other transactions can be prevented or delayed, or the terms changed, by a variety of factors. If a proposed transaction appears likely not to be completed or in fact is not completed or is delayed, the market price of the investments may decline sharply and result in losses which could have a material adverse effect on performance. Under such circumstances, the returns generated from such investments may not compensate investors adequately for the risks assumed.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by CFM. To the extent that CFM becomes involved in such proceedings, the Investment Vehicles may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by CFM in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Investment Vehicles' ability to liquidate its position in the issuer. Further, when trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

Most of the debt is rated below "investment grade" or is unrated and faces ongoing uncertainties and exposure to adverse business, financial, or economic conditions and the issuer's failure to make timely interest and principal payments. The market values of certain of these debt securities may reflect individual corporate developments. It is likely that a major economic recession could have a materially adverse impact on the value of such securities.

### *Interest-rate risk*

Increases in interest rates decrease the likelihood of successful workouts of distressed debt, and increase the likelihood of defaults and foreclosures. In addition, increasing interest rates (currently at or near historical lows) will cause the outstanding debt securities to decline in value. In general, interest-rate increases and rising inflation can be expected to materially adversely affect investments in this sector.

### *Potential Illiquidity of Investments*

The market value of the investments fluctuate with, among other things, changes in market rates of interest, general economic conditions, operating conditions in particular property markets, supply and demand for real estate securities, the condition of financial markets and the financial condition of the issuers of the investments. In addition, limited secondary market liquidity for some investments may have an adverse effect on the market value of those investments and on the ability to dispose of them. Partly as a result of the foregoing, as well as general market inefficiencies respecting credit-impaired investments, a portfolio valuation may not necessarily be indicative of actual results or amounts to be realized from the investments. Additionally, some investments may be subject to certain other transfer restrictions that may contribute to illiquidity.

The liquidity of the real estate securities market was severely restricted during the Financial Crisis and remains at historically low levels. Any additional market slowdowns could further impair such liquidity.

#### *Potential Environmental Liability*

From time to time, foreclose on the commercial real estate collateral underlying the securities may be required. Under various laws and regulations, an owner of or lender with respect to real property may have significant liability for any contamination found on such property including being liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property may not be limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral and may have a significant adverse effect on the value and returns from such property.

#### *Uncertain Recovery Value of Collateral*

A substantial component of CFM's analysis of the desirability of making certain investments (in particular, with respect to larger investments) relates to the estimated residual or recovery value of such investments in the event of the insolvency of the issuer. This residual or recovery value is driven primarily by the value of the underlying assets constituting the collateral for such investment. The value of collateral can, however, be extremely difficult to predict and in certain market circumstances there could be little, if any, market for such assets. Moreover, depending upon the status of these assets at the time of an issuer's default, they may be substantially worthless.

#### *Secured Instruments Subject to Repayment or Bankruptcy Plans*

Certain of the instruments may include collateral that is subject to repayment or bankruptcy plans, under which prior delinquent payments and advances must be paid during a specified period after the plan is instituted. As a result, this collateral will be forced to generate larger payments until the obligations under the plans are paid in full, perhaps degrading the value of such collateral as security for investments. In addition, certain collateral may have arrearages that are not subject to plans and must be discharged before the collateral can be of any value.

#### *Leverage*

Investments may be leveraged. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. Small hedging errors may be amplified by leverage into major duration imbalances that render a portfolio exposed to directional shifts in the yield curve and may lead to a total loss of the leveraged investment. Hedges may fail to track target investments due to uncorrelated changes in spreads between various instruments, resulting in large unexpected losses. Additionally, certain events trigger mandatory repayments by the Investment Vehicles. Performance will be adversely affected if mandatory repayments must be made at a time when alternative financing is not available or only available on unfavorable terms.

Because investments are expected to include securities of issuers with leveraged capital structures, such investments will be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such issuer. Similarly, investments may be made in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of any investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

### *General Risks of Real Estate Collateral*

Making loans secured by real estate is subject to all of the risks inherent in investing in real estate and real estate-related investments. These risks may include, without limitation, general and local economic and social conditions, fluctuations in real estate values, the financial resources of tenants, vacancies, changes in tax, zoning, building, environmental and other applicable laws, real property tax rates, changes in interest rates and the availability of mortgage funds. Such risks also include fluctuations in occupancy rates, rent schedules and operating expenses, which could adversely affect the value of the properties. There can be no assurance of profitable operations for any real estate property or the repayment of any debt investment that is secured by such property. The cost of operating a property may exceed the rental income it generates require the advancement of funds to protect an equity investment, forego the receipt of interest income on debt investments and/or dispose of commercial real estate collateral on disadvantageous terms.

### *Credit Ratings*

Credit ratings of issuers, structured finance products and other debt instruments and investments represent the Ratings Agencies' opinions regarding their credit quality and are not a guarantee of future credit performance of the securities. Ratings Agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, the ratings assigned to securities by Ratings Agencies may not fully reflect the true risks of an investment. Further, in recent years many highly rated structured securities have been subject to substantial losses. Moreover, the downgrading of could lead to substantial losses, and CFM may not be able to rely with confidence on the ratings given to issuers.

## **VIII.(C). Investment-Specific Risks**

---

The Investment Vehicles managed by CFM trade in several different securities instruments. However, CMBS instruments are the most commonly traded securities instrument. A detailed description of the risk factors associated with CMBS instruments and other investment instruments traded on behalf of CFM's Investment Vehicles can be found in the offering documents for each such Investment Vehicle.

### *Mortgage-Backed Securities and Prepayment Risk*

Investing in commercial mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risk of principal prepayment and defaults. Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis, and there also exists the possibility that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, assets may have to be reinvested at an inopportune time, which may generate a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages adversely affect these securities.

### *Commercial Mortgage-Backed Securities*

CMBS represent interests in (or are secured by) commercial mortgage loans. CMBS are directly affected by payments, defaults and losses on the underlying commercial mortgage loans. Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but rather is payable at maturity (as a "balloon payment"). Consequently, repayment of the loan principal often depends upon the future

availability of refinancing from existing or alternative lenders and/or upon the current value and saleability of the real estate.

Commercial mortgage loans underlying CMBS are generally secured by income producing property, such as multi-family housing or commercial property. The ability of a borrower to repay a loan secured by an income producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income of assets of the borrowers. In the case of certain commercial mortgage loans, repayment of loans secured by commercial and multi-family properties depends upon the ability of the related real estate project to generate income sufficient to pay debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements, and in the case of loans that do not fully amortize over their terms, to retain sufficient value to permit the borrower to pay off the loan at maturity through a sale or refinancing of the mortgaged property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools.

CMBS may be backed by an underlying mortgage pool of only a few mortgage loans. Commercial real estate lending generally is viewed as exposing a lender (and the related CMBS) to a greater risk of loss than certain other forms of lending because it typically involves making larger loans to single borrowers or groups of related borrowers. Commercial mortgage-backed transactions resemble traditional non-recourse secured loans. The value of the income producing property underlying CMBS is directly related to the net operating income derived from such property. If a commercial mortgage loan is in default, foreclosure on such commercial mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted commercial mortgage loans or foreclosed properties may be very limited.

Additional risks may be presented by the type and use of the particular commercial property underlying the CMBS acquired. Many of such properties are regulated or subjected to contractual arrangements which could be terminated, in each case, substantially reducing the value of the property. A commercial property may not be readily convertible to an alternative use if the operation of such property for its original purpose becomes unprofitable.

A portfolio of CMBS may from time to time be backed by mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. Such CMBS are highly susceptible to geographic as well as overall market risk. Additionally, certain of the mortgage loans underlying the CMBS may be made to borrowers organized outside of the United States and/or secured by property located outside the United States. The bankruptcy and foreclosure procedures under the laws of such countries may be materially less protective of the CMBS holder than those applicable in the United States.

Most commercial mortgage loans underlying CMBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third-party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligation with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

### *CDO Investment Related Risks*

The market value of CDOs fluctuate with, among other things, the financial conditions of the obligors on the underlying debt obligations or, with respect to Synthetic Securities (as defined below), of the obligors on or issuers of the Reference Obligations (as defined below), general economic conditions, the condition of certain financial markets,

political events, developments or trends in any particular industry and changes in prevailing interest rates. A “Synthetic Security” is any derivative financial instrument with respect to a debt instrument, in the form of a swap transaction or other form of derivative purchased or entered into, with or from a synthetic security counterparty, which investment contains similar probability of default, recovery upon default (or a specific percentage thereof) and expected loss characteristics as those of the related Reference Obligation (without taking account of such considerations as they relate to the counterparty), but which will contain maturity, interest rate and other non-credit characteristics that may be different from the Reference Obligation to which the credit risk of the Synthetic Security relates. “Reference Obligation” means a debt security or other obligation upon which a Synthetic Security is based. “Reference Obligor” means the obligor on a Reference Obligation. Prospective investors must understand that certain securities may constitute all or a significant portion of the underlying securities held by a CDO or Synthetic Security and that CDOs are therefore subject to risks particular to such securities.

CDOs are subject to credit, liquidity and interest rate risks. There is no established, liquid secondary market for many CDO securities, and CDOs may be subject to certain transfer restrictions. The lack of such an established, liquid secondary market and the restrictions on transfer may have an adverse effect on the market value of such CDO securities and a market participant’s ability to sell them. For example, in recent years, the liquidity of many CDO securities has been substantially reduced compared to prior periods. No assurance can be given that if a market participant were to dispose of a particular CDO it holds, it could dispose of such investment at the previously prevailing market price.

If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a U.S. issuer of a CDO were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the CDO and, after giving to such indebtedness, the issuer (i) was insolvent; (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital; or (iii) intended to incur, or believed that it could incur, debts beyond its ability to pay such debts as they matured, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer of a CDO, payments made on such CDO could be subject to avoidance as a preference if made within a certain period of time (which may be as long as one year) before insolvency. In general, if payments on a CDO are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured.

---

## **IX. Disciplinary Information**

---

There are no items required to be reported in response to this item.

---

## **X. Other Financial Industry Activities and Affiliations**

---

The following information addresses any active or pending financial industry affiliations that Clients need to know about for the purpose of identifying any related conflicts of interest that you might consider material in regard to engaging CFM.

---

### **X.(A). Broker-Dealers**

---

Neither CFM nor any of its management persons is registered as a broker-dealer, nor do any such persons have an application pending or otherwise in process for the purpose of seeking registration as a broker-dealer. Further, none of our management persons are registered as or currently seeking registration as a registered representative of a broker-dealer.

---

### **X.(B). Futures Commission Merchants, Introducing Brokers, Commodity Trading Advisors, Commodity Pool Operators**

---

Neither CFM nor any of its management persons is registered as a futures commission merchant, an introducing broker, a commodity trading adviser, or a commodity pool operator, nor do any such persons have an application pending or otherwise in process for the purpose of seeking registration as any of these types of firms. Further, none of our management persons are registered as or currently seeking registration as associated persons of any of these types of firms.

## **X.(C). Other Related Persons**

---

As described previously, CFM serves as the investment manager to one or more pooled Investment Vehicles described below.

### **Investment Vehicles**

**Claros Real Estate Securities Fund, L.P. (“Claros Master”)**  
**Claros Real Estate Securities Fund I, Ltd. (“Claros Feeder I”)**  
**Claros Real Estate Securities Fund II, Ltd. (“Claros Feeder II”)**

CFM serves as the investment manager to Claros Master, Claros Feeder I, and Claros Feeder II. Claros Advisors, LLC (“Claros Advisors”) serves as the general partner for Claros Master. CFM assists Claros Advisors with the investment and financing operations of Claros Master, including the identification, evaluation, acquisition, financing, management and disposition of assets. With the exception of such capital that CFM deems reasonably necessary or appropriate to pay any fees, expenses or other costs related to Claros Feeder I and Claros Feeder II, respectively, both Claros Feeder I and Claros Feeder II invest substantially all of their assets in Claros Master. Claros Master pays a management fee to CFM. Claros Advisors is majority-owned and controlled by one or more CFM Management Persons.

### **Affiliated Fund Sponsor**

#### **Claros Advisors, LLC**

As described above, Claros Advisors, LLC is a related person of CFM serves as the general partner of Claros Master. In accordance with the ABA no-action letter dated January 18, 2012, Claros Advisors, LLC is a registered investment adviser, and all of its investment advisory activities are subject to the compliance program, supervision and control of CFM.

### **Conflicts of Interest**

The relationships and arrangements described above may present certain conflicts of interest.

#### *Other Clients*

Certain inherent conflicts of interest arise from the fact that CFM may in the future provide investment management services to more than one client and that such clients may have overlapping or conflicting investment objectives. Also, the portfolio strategies employed by CFM for current and future clients and other CFM Investment Vehicles (if any) could conflict with one another, and may affect the prices and availability of the assets in which such clients invest. Certain clients of CFM may in the future have similar investment strategies, and participation in specific investment opportunities may be appropriate for more than one CFM Investment Vehicle. In such cases, participation in such opportunities will be allocated pursuant to CFM’s allocation policy and procedures. Such considerations may result in allocations of certain investments among CFM Investment Vehicles on other than a *pro rata* basis. More information concerning CFM’s allocation policy and procedures is provided elsewhere in this Brochure.

Certain associated persons and affiliates of CFM may invest, on behalf of themselves, in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of an Investment Vehicle client. CFM and/or its investment manager subsidiaries may give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given or action taken for an Investment Vehicle

client. These activities may adversely affect the prices and availability of securities or other instruments held by, or potentially considered for, one or more of CFM's Investment Vehicle clients.

Potential conflicts also may arise due to the fact that the CFM and/or its affiliates may hold investments in some Investment Vehicle clients (generally not directly) but not in others or may have different levels of investments in the various Investment Vehicle clients (generally not directly).

CFM may give advice or take action with respect to the assets of one or more Investment Vehicle client that may not be given or taken with respect to other Investment Vehicle clients with similar investment programs, objectives and strategies. Accordingly, Investment Vehicle clients sharing similar strategies may not hold the same securities or instruments or achieve the same performance. CFM may also advise certain Investment Vehicle clients with conflicting investment objectives or strategies. These activities may also adversely affect the prices and availability of securities or other instruments held by or potentially considered for one or more Investment Vehicle client.

#### *Other Activities*

Additional conflicts of interest may arise because certain CFM management persons (including CFM personnel) may serve as directors of companies in which CFM Investment Vehicles invest. In addition to any fiduciary duties the CFM management persons owe to the CFM Investment Vehicles, as directors of companies whose securities may be held in an Investment Vehicle portfolio, these CFM management persons may owe fiduciary duties to the shareholders of such companies and to persons other than CFM Investment Vehicle clients. In general, such director positions may have the effect of enhancing the ability of CFM and its affiliates to manage investments. Such positions, however, may have the effect of impairing the ability of CFM to sell the related assets when, and upon the terms, it may otherwise desire. In addition, such positions may place the CFM management persons in a position where they must suggest or make a decision that is either not in the best interests of CFM Investment Vehicle clients or not in the best interests of the shareholders of the company for whom they serve as director(s). Should a CFM management person make a decision that is not in the best interest of the shareholders of such a company, such decision may subject CFM and potentially its Investment Vehicles to claims that they would not otherwise be subject to, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In general, CFM Investment Vehicle clients indemnify CFM and its management persons from such claims. In addition, because of the potential conflicting fiduciary duties, CFM may be restricted in choosing assets for Investment Vehicle clients, which could negatively impact returns experienced by those clients.

Further, such service on a board may subject CFM management persons, and by association, CFM and its Clients, to certain limitations on the ability to trade the securities of the issuer company. As a result of such service, a CFM management person may become aware, from time to time, of material non-public information about the company in which Clients invest, and this knowledge is likely to be attributed to CFM and its Clients which may result in the Clients' ability to trade the securities of such company to become substantially restricted. Such limitations may cause the Clients to forgo sales that they would otherwise make, thereby exposing them to losses or to forgo purchases, thereby exposing them to lost opportunities. CFM and its Clients may also be subject to Section 16 of the Securities Exchange Act of 1934, as amended, including the requirements, the restrictions on purchases and sales, and the disgorgement of profits in certain circumstances.

CFM investment managers and their personnel may have conflicts in allocating their time and services among clients. CFM investment managers and their personnel work on other projects, including other CFM Investment Vehicles and CFM's other existing and potential business activities. Each of CFM's Investment Vehicle clients may pay different levels of fees and, thus, an incentive may exist to spend more time on or put additional effort into certain Investment Vehicles that pay higher fees than other Investment Vehicles.

#### *Material Non-Public Information*

An associated person of CFM or one of its affiliates may, from time to time, come into possession of material non-public information in relation to certain parties that may be involved with one or more transactions contemplated on behalf of one of CFM's Investment Vehicle clients. Such associated persons may be subject to trading restrictions



and may be prohibited from engaging in any transactions with respect to the securities or instruments of any company to which the material, non-public information relates. Such a prohibition may have an adverse effect on CFM's Investment Vehicle clients.

CFM may implement screens or information barriers in order to separate persons who make investment decisions from others who might possess material non-public information that could influence such decisions, but is not required to do so. In an effort to manage possible risks from CFM's decision not to implement such barriers, CFM maintains a list of restricted securities as to which CFM and its associated persons may have access to material non-public information and in which CFM associated persons are prohibited from trading for themselves or on behalf of any CFM Investment Vehicle clients. In such an event, CFM may be restricted from acquiring or disposing of certain investments on behalf of its Investment Vehicle clients, which could impact the returns generated for such clients.

Notwithstanding the maintenance of restricted securities lists and other internal controls, it is possible that the internal controls relating to the management of material non-public information could fail and result in CFM or one of its associated persons buying or selling a security while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on CFM's reputation, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact CFM's ability to perform its investment management services to its Investment Vehicle clients. In addition, CFM could be required by certain regulations, or decide that it is advisable, to establish information barriers, which could limit or significantly alter CFM's access to certain CFM associated persons and impair its ability to manage certain assets on behalf of its Investment Vehicle clients.

From time to time, CFM may acquire securities or other financial instruments of an issuer for one Investment Vehicle client which are senior or junior securities or financial instruments of the same issuer that are held by, or acquired for, another Investment Vehicle client (i.e., one Investment Vehicle client may acquire senior debt while another Investment Vehicle client may acquire subordinated debt). As a result, actions taken by CFM on behalf of one client may be adverse to the interests of another client. For example, in the event such issuer enters bankruptcy, the Investment Vehicle holding securities which are senior in bankruptcy preference may have the right to aggressively pursue the issuer's assets to fully satisfy the issuer's indebtedness to the Investment Vehicle client, and as a fiduciary, the applicable CFM investment manager would have an obligation to pursue such remedy on behalf of such Investment Vehicle client. As a result, an Investment Vehicle client holding assets of the same issuer which are more junior in the capital structure may not have access to sufficient assets of the issuer to completely satisfy its bankruptcy claim against the issuer and may suffer a loss.

From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment, and other activities of CFM, its affiliates, and their respective personnel. CFM endeavors to resolve conflicts with respect to investment opportunities contemplated on behalf of its Investment Vehicle clients in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

## **How we Address Conflicts of Interest**

First and foremost, we address this conflict by disclosing it to you in this Brochure. As a matter of general policy, we aggressively discourage activities that put a client's interests anywhere but first. Additionally, we have instituted a comprehensive supervisory program, detailed in our Written Supervisory Procedures and Compliance Manual ("WSPs"), that was designed to address, among other things, conflicts of interest such as the relationship and arrangements described herein.

In addition, we have designated a Chief Compliance Officer to be the person responsible for the overall application and oversight of our supervisory process and our WSPs. Our Chief Compliance Officer has the authority to delegate certain supervisory responsibilities to other supervised persons within our firm in order to ensure that our overall system of supervision is being carried out adequately and in a timely manner.

As described above, since participation in specific investment opportunities may be appropriate, at times, for more than one Investment Vehicle, CFM has established policies and procedures for allocating investment opportunities among such clients. The procedures have been adopted to ensure that each Investment Vehicle is treated in a

manner that, over time, is fair and equitable and to take into account the fact that certain Investment Vehicles may have broad investment mandates that overlap. CFM will allocate investment opportunities among the Investment Vehicles on a basis that CFM determines in good faith to be appropriate, taking into consideration factors including, but not limited to, the following:

- the fiduciary duties that CFM owes to its Investment Vehicle clients;
- each Investment Vehicle's investment mandate;
- the relative amounts of capital available for investment (taking into account applicable reserves) and any restrictions on investment;
- the sourcing of the transaction;
- the size of the transaction;
- the amount of potential follow-on investing that may be required for such investment and other portfolio investments;
- the nature of the investment focus of each Investment Vehicle;
- portfolio balance and diversification;
- the involvement of respective teams of investment professionals; and
- any other factors deemed applicable by CFM in good faith.

The investment allocation policy may be amended by CFM at any time without the consent of or notice to any Investment Vehicle clients.

As stated above, in an effort to inform Clients of these conflicts of interest, we have prepared this Brochure and have provided it to our Clients, in part, for the purpose of disclosing these conflicts. Clients and investors are always welcome to request a current copy of our Brochure. We are required to provide Clients a copy of this Brochure no later than the time at which a Management Agreement is executed with the Client. On an annual basis, we are required to provide Clients either (1) a copy of our current Brochure or (2) a set of instructions as to how each client can request a copy of our current Brochure.

---

## **X.(D) Use of Other Investment Advisers**

---

We do not use other investment advisers in the course of the services described above in Item IV.(B).

---

## **XI. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

---

---

### **XI.A Code of Ethics**

---

We take great pride in our commitment to serving our Clients' needs and the integrity with which we conduct our business. In our recent history, the financial services industry has come under significant scrutiny, especially in the area of the inherent responsibility of financial professionals to behave in the best interests of their clients.

As an SEC-registered adviser, CFM has adopted a Code of Ethics ("Code") as required under SEC rules. The Code is a means of memorializing our vision of appropriate and professional conduct in carrying out the business of providing investment advisory services. Our Code addresses issues such as the following:

- Standards of conduct and compliance with applicable laws, rules, and regulations
- Protection of material non-public information
- The addressing of conflicts of interest
- Employee disclosure and reporting of personal securities holdings and transactions
- The firm's IPO and private placement policy
- The reporting of violations of the Code
- Educating employees about the Code
- Enforcement of the Code

Each of our associated persons has been furnished with a copy of our Code and our supervised persons have signed a written acknowledgement attesting to their understanding of the Code and acceptance of its terms. A copy of our Code is available to all current and/or prospective Clients upon request.

## **XI.(B) Participation in Client Trading**

---

The information in this item is intended to address situations in which we or one of our related persons may have a material financial interest in the investment instruments that we may recommend to our clients.

As described in response to Item X.(C), from time to time, one or more of our management persons may hold board positions with certain public companies. In most cases, these management persons are compensated for the performance of their duties as board members. All transactions in securities of such companies on behalf of CFM's Investment Vehicle clients are monitored carefully in order to ensure that all such transactions are appropriate and in the best interests of our clients.

## **XI.(C) Trading Alongside Our Clients**

---

On occasion, either CFM or certain of its related persons may invest for its own accounts or have a financial interest in the same securities or other investments that we recommend or acquire for the benefit of our Clients. Further, we may also engage in transactions that are the same as or different than transactions carried out for the benefit of our Clients. Such transactions are permitted if effected, pre-cleared and reported in compliance with our policy on personal securities transactions. Generally, personal securities transactions are not pre-cleared when an order for the same or a related security is pending for the account of a Client. Our Chief Compliance Officer or her designee reviews reports of personal transactions in securities by all of our access persons quarterly or more frequently if required.

### **Investment Policy**

None of our access persons may effect for himself/herself or for accounts in which he/she holds a beneficial interest, any transactions in a security which is being actively recommended to any of our Clients, unless in accordance with the following procedures.

### **Firm Procedures**

In order to implement our Investment Policy, the following procedures have been put into place.

- 1) If we are recommending that any of our Clients buy any security, no access person may purchase that security prior to a Client's purchase of that security; and
- 2) If we are recommending that any of our Clients sell any security, no access person may sell that security prior to a Client's sale of that security.

It is the primary intent of these procedures to ensure that the best interests of our Clients are always served over that of our own. Trading on our own behalf that results in our own interests being served over that of our Clients would be considered a breach of our fiduciary duty and thus, is aggressively discouraged.

## **XI.(D) Trading Around the Same Time as Clients**

---

The information in this item is intended to address situations in which we or any of our related persons may invest in the investment instruments we may recommend to Clients. See Item XI.(C) above for additional information.

## **Trade Errors**

In the course of carrying out trading and investing responsibilities, "trading errors" may occur — *i.e.*, errors in executing specific trading instructions. Examples of trading errors include: (i) buying or selling an asset at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy; or (ii) buying

rather than selling a particular asset (and *vice versa*). The General Partner treats all trading errors (including those which result in losses and those which result in gains) as for the account of Investment Vehicle, unless they are the result of conduct on the part of the General Partner itself (not on behalf of any General Partner personnel individually) which is inconsistent with the standard of care set forth in the Investment Management Agreement. Accordingly, the General Partner is not be obligated to reimburse the Investment Vehicle for all trade errors.

---

## **XII. Brokerage Practices**

---

The purpose of this Item is to present to the factors that we take into consideration when (1) selecting broker-dealers for the purpose of effecting transactions on behalf of our Clients and (2) for determining the reasonableness of such broker-dealers' compensation related to such transactions.

CFM generally recommends that all the Client's transactions be effected at, by, or through certain other firms that are unaffiliated with CFM.

Factors that we may consider in recommending certain broker-dealers or custodians to our Clients may include such entity's financial strength, reputation, execution, pricing, and service. In return for effecting securities transactions through certain broker-dealers and custodians, we or certain of our supervised persons may receive certain support services that may assist us in our investment decision-making process for all of our clients.

In seeking best execution, the determinative factor is not always the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of brokerage services, including factors such as execution capability, commission rates, and responsiveness. Accordingly, although we seek competitive rates, we may not necessarily obtain the lowest possible commission rates for a Client's transactions.

---

### **XII.(A).(1). Research and Soft Dollar Benefits**

---

The SEC has defined soft dollar practices as arrangements under which products or services other than execution of securities transactions are obtained by an adviser from or through a broker-dealer in exchange for the direction by the adviser of client brokerage transactions to the broker-dealer. An individual or firm must exercise "investment discretion" over an account, as defined in Section 3(a)(35) of the Exchange Act, in order to use client commissions to obtain research under Section 28(e) of the Exchange Act ("Section 28(e)"). We do not participate in soft dollar arrangements, except to the extent that we may receive for no cost proprietary research provided by brokerage firms, which is not contingent upon the securities business we may direct to such brokerage firms.

---

### **XII.(A).(2). Brokerage for Client Referrals**

---

In certain circumstances, firms like ours may receive client referrals as a result of recommending particular broker-dealers or other service providers. We, however, do not participate in any formal arrangements whereby we receive client referrals from any particular broker-dealer in return for selecting or recommending such broker-dealer.

---

### **XII.(A).(3). Directed Brokerage**

---

We do not routinely recommend, request, or require that Clients direct us as to how to execute brokerage transactions on their behalf (i.e. using a particular broker-dealer for execution purposes), and we do not permit Clients to dictate how to direct brokerage activities.

---

## **XII.(B). Order Batching**

---

In light of the limited number of actively-traded investment fund Clients we expect to have and the fact that the types of securities instruments that we trade on behalf of our Investment Vehicle Clients do not lend themselves to batched trading, we do not ordinarily engage in order batching or bunching.

---

## **XIII. Review of Accounts**

---

### **XIII.(A). Review of Accounts**

---

We review Client portfolios on an ongoing basis, but no less frequently than quarterly. The designated reviewer(s) reviews portfolios for things such as best execution (to the extent applicable) and overall suitability and consistency of any trading activity with regard to the investment objective(s) of the particular Investment Vehicle. As part of this review process, the designated reviewer(s) generally reviews the performance and cost basis for transactions. During the quarterly review process, not all transactions are reviewed, but rather the designated reviewer(s) typically performs a sampling-based review.

The periodic review process described above is performed by CFM's Head Trader.

### **XIII.(B). Non-Periodic Account Reviews**

---

Not applicable, see Item XIII.(A).

### **XIII.(C). Reports to Clients**

---

We typically prepare monthly reports which are sent to participants in our Investment Vehicles. These monthly reports include general economic observations and performance information. The specifics of each monthly report vary based on each individual Investment Vehicle as well as the particular investor. In addition, the general partner or managing member of any Investment Vehicle that is managed by CFM ensure that all investors are provided a copy of the annual audit report within 120 days of the fiscal year-end of the Investment Vehicle (for each Investment Vehicle subject to an annual financial audit). Please refer to the offering materials for each specific Investment Vehicle for further details.

---

## **XIV. Client Referrals and Other Compensation**

---

### **XIV.(A). Compensation We Receive**

---

Other than the compensation arrangements described above in Item V.(B), CFM does not receive any other compensation in connection with the investment advisory services provided to our Clients.

### **XIV.(B). Compensation We Pay**

---

Under certain circumstances, firms like ours may compensate other parties for having referred Clients or potential investment advisory clients. These sorts of arrangements are generally referred to as "solicitor" arrangements. We do not at present participate in any solicitor arrangements.

---

## **XV. Custody**

---

All Client assets are held in custody by unaffiliated qualified custodians (i.e., broker/dealers or banks); however, CFM is deemed to have custody of the assets of the Investment Vehicle for which CFM's affiliate serves as general partner. Investors in the Investment Vehicles do not receive statements from the custodian. Instead, the Investment Vehicles are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of the respective Investment Vehicle's fiscal year end. Please also refer to Item XIII.(C) for additional details regarding annual audit reports that are issued to investors in the Investment Vehicles we manage.

---

## **XVI. Investment Discretion**

---

In connection with our investment advisory services, we generally seek and obtain a Client's authorization to carry out part or all of our services on a purely discretionary basis. We memorialize any such authorization of our discretionary authority in our Management Agreement(s).

We exercise discretion over the following areas.

- 1) The specific securities to be bought or sold on a Client's behalf;
- 2) The amount of securities to be bought or sold on a Client's behalf;
- 3) Timing as to when such securities are to be bought or sold; and
- 4) The particular broker or dealer to be used for arranging client securities transactions.

Currently, we have authority to exercise complete discretion with regard to the above named factors without restriction. The discretionary authority described in this Item relates primarily to our Investment Vehicles that engage in active trading of securities instruments.

---

## **XVII. Voting Client Securities**

---

### **XVII.(A). Proxy Voting**

---

#### **Proxy Voting Policies and Procedures and Client Instruction**

In the event that a Client has authorized (via the Investment Management Agreement) us to vote proxies on its behalf, we perform the voting process subject to the following information and procedures. In an effort to assure that Clients' proxy votes are carried out in our Clients' best interests and not affected by any conflicts of interest that may exist, we have adopted the following elements as part of our proxy voting policy.

Regardless of the nature of the issue up for vote, we thoroughly and objectively research the voting options and the corporate landscape in order to arrive at a decision that we believe meets the best interests of our Clients as shareholders of the company in question. The overriding theme of our policy is to vote Client proxies in the manner that we believe is most consistent with the following:

- The Client's stated investment objectives;
- The Client's desired voting interests;
- The long-term well-being of the company soliciting the proxy; and
- An increase in shareholder value.

#### **Conflicts of Interest...**

We recognize that conflicts of interest may arise when voting Client proxies. A conflict of interest exists when a Client's best interests are contrary to our best interests due to some relationship between us and/or our associated persons and a company that is soliciting a proxy. Some examples may include:

- The spouse of one of our associated persons is a board member of a company whose management is soliciting proxies to vote on a salary increase for the board.
- We are an affiliated company of a company that has issued a proxy notice to individuals who are our clients.
- We or one or more of our affiliates may manage a pension plan, administer employee benefit plans, or provide brokerage, underwriting, insurance, or banking services to a company whose management is soliciting proxies.

It is our policy to vote proxies in the best interests of our Clients regardless of the existence of any conflict of interest.

As authorized in our Agreement, we may exercise complete discretionary voting authority in relation to proxy notices that we receive on our Clients' behalf. If no apparent conflict of interest exists in relation to our exercise of our voting authority on our Clients' behalf, we shall vote all such proxies as we see fit and in each applicable Client's best interest.

Under certain circumstances, the most prudent action on our part may be NOT to vote a proxy(s). Under such circumstances, we shall ensure that appropriate records are maintained so as to justify not having voted such proxy(s).

#### **How to obtain our proxy voting record...**

We will ensure that a complete record is retained of the initial proxy notice and the subsequent vote that we cast on our Clients' behalf. For a copy of our proxy voting record on a Client's behalf, applicable Clients may write or call us at:

Claros Fund Management LLC  
60 Columbus Circle  
20<sup>th</sup> Floor  
New York, NY 10023  
212-515-3246  
212-515-3284...fax  
INFO@clarosfund.com

### **XVII.(B). Proxy Voting**

---

In the event a Client has authorized us to vote proxies on its behalf, we will do so in accordance with the information provided above in XVII.(A). Proxies related to the securities owned by a Client are disseminated as dictated by the issuer, transfer agent, or as otherwise set forth in the account opening paperwork required by the custodian (as applicable) holding a Client's account/assets. Questions related to a particular proxy notice can be directed to our Chief Compliance Officer at 212-515-3246.

### **XVIII. Financial Information**

---

We are not required to disclose any information in response to this item.

### **XIX. Requirements for State-Registered Advisers**

---

As a federally-registered investment adviser, this section is not applicable to us.