

NSAM US LLC

Form ADV, Part 2A
(the “Brochure”)

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This brochure (“Brochure”) provides information about the qualifications and business practices of NSAM US LLC (“NSAM”), NSAM Luxembourg S.à.r.l., NSAM J-NRF Ltd, NSAM J-NSI Ltd, NSAM J-NSHC Ltd, NSAM J-NSII Ltd and Healthcare Opportunity JV, LP (collectively, the “NorthStar Advisers”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer (the “CCO”), Kristen Ann Whealon, at 303-953-3863.

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 securities authority.

Each NorthStar Adviser is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.

Additional information about NSAM also is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

Not Applicable.

IMPORTANT NOTE ABOUT THIS BROCHURE

This Brochure is not:

- an offer or agreement to provide advisory services to any person
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any investment vehicle advised or sponsored by NSAM (each a “Managed Company”)
- a complete discussion of the features, risks or conflicts associated with any advisory relationship or Managed Company

As required by the US Investment Advisers Act of 1940, as amended (“Advisers Act”), NSAM provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a Managed Company, together with the Managed Company’s offering documents, organizational documents, management contracts or other related documents (the “Governing Documents”), prior to, or in connection with, such persons’ investment in the Managed Company. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of NSAM, persons who receive this Brochure (whether or not from NSAM) should be aware that it is designed solely to provide information about NSAM as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant Governing Documents. More complete information about each Managed Company is included in relevant Governing Documents, certain of which may be provided to current and eligible prospective investors only by the firm or by another authorized party such as a placement agent.

In no event should this Brochure be relied upon in determining whether to invest in a Managed Company or to engage NSAM as an investment adviser. To the extent that there is any conflict between discussions herein and similar or related discussions in any Governing Documents, the relevant governing documents shall govern and control.

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ITEM 4: ADVISORY BUSINESS

About NSAM and other NorthStar Registrants

NSAM is a Delaware limited liability company and is an indirect wholly-owned subsidiary of NorthStar Asset Management Group Inc. (“NSAM Parent”), a Delaware corporation. NSAM Parent is a publicly-traded company listed on the New York Stock Exchange (NYSE: NSAM), which was formed as a result of a spin-off of the asset management business of NorthStar Realty Finance Corp. (NYSE: NRF) (“NorthStar Realty”). NSAM Parent has been organized to own the asset management business of NSAM and its affiliates, who provide asset management and other services to the Managed Companies, consisting of NorthStar Realty, public non-traded companies sponsored by NSAM Parent and/or NorthStar Realty and other companies, funds and accounts that may be sponsored by NSAM Parent or otherwise advised by the NorthStar Advisers in the future, both in the United States and internationally.

Certain affiliates of NSAM (the “Relying Advisers”) provide investment advisory and related services as part of NSAM’s advisory business. These include, in particular, affiliated companies established in Luxembourg and Jersey which may also engage NSAM affiliates and third parties for the provision of services. NSAM and the Relying Advisers generally have common policies and procedures with respect to their clients, share senior management teams and key personnel, and are collectively referred to herein as the “NorthStar Advisers,” or “NorthStar,” as context requires. Each NorthStar Adviser is a separate and distinct company that may have differing investment capabilities and functions, but the NorthStar Advisers work collaboratively to provide advice and services to the Managed Companies. Upon completion of the spin-off, which is anticipated to be on or about June 30, 2014, the NorthStar Advisers will have assets under management of approximately \$10.4 billion. The NorthStar Advisers include NSAM, NSAM Luxembourg S.à.r.l. (Luxembourg), NSAM J-NRF Ltd (Jersey), NSAM J-NSI Ltd (Jersey), NSAM J-NSHC Ltd (Jersey), NSAM J-NSII Ltd (Jersey) and Healthcare Opportunity JV, LP.

NSAM Parent also directly and indirectly owns a number of operating entities (in addition to NSAM and the Relying Advisers) that are engaged in the business of owning, controlling, operating, managing, servicing and providing other services related to real estate and real estate-related assets. The operating companies owned by NSAM Parent that are engaged in the financial services industry are described in Item 10 below.

About the Managed Companies

NorthStar’s primary business objective is to provide asset management and other services to the Managed Companies in the United States and internationally. NorthStar’s Managed Companies include public traded and non-traded companies sponsored by NSAM Parent and/or NorthStar Realty that have elected to qualify as real estate investment trusts (“REITs”) under the U.S. Internal Revenue Code of 1986, as amended. The Managed Companies have historically invested in the commercial real estate (“CRE”) industry and have demonstrated the ability to invest and create value through multiple real estate cycles and changing market conditions. As used herein, the term commercial real estate industry refers to all commercial property types, both in the United States and internationally, including but not limited to office, multifamily, hotel, retail, industrial, healthcare and manufactured housing real estate.

NorthStar Realty

NorthStar Realty is a publicly-traded diversified commercial real estate investment company formed in October 2003 that invests in multiple asset classes across commercial real estate, which may take the form of acquiring real estate and originating or acquiring senior or subordinate loans, as well as pursuing

opportunistic commercial real estate investments. NSAM was created as a result of a spin-off of NorthStar Realty's asset management business at the end of the second quarter of 2014. NSAM has entered into a management contract with NorthStar Realty with an initial term of 20 years, which will provide stable fees to NSAM while continuing to grow NorthStar Realty's existing business through the NSAM management team's investment strategy.

Non-Traded Companies and Other Clients

NorthStar currently manages three public non-traded REITs: NorthStar Real Estate Income Trust, Inc. ("NS Income"), NorthStar Healthcare Income, Inc. ("NS Healthcare") and NorthStar Real Estate Income II, Inc. ("NS Income II"). NS Income is a public, non-traded REIT, currently closed to new investments, that originates, invests in and manages a portfolio of select equity investments, commercial real estate debt and securities. NS Healthcare is a public, non-traded REIT formed to originate, acquire and asset manage a diversified portfolio of commercial real estate equity, debt and securities investments in healthcare real estate, with a focus on the mid-acuity senior housing sector. NS Income II is a public, non-traded REIT that originates and acquires a diversified portfolio of commercial real estate debt, securities and select equity investments.

In December 2013, NorthStar Realty entered into a strategic arrangement with RXR Realty, LLC ("RXR Realty"), a leading commercial real estate operating and investment management company focused on high-quality real estate investments in the New York Tri-State area. NorthStar Realty's equity interest is structured so that the NorthStar Advisers are entitled to certain fees in connection with the investment in RXR Realty. In addition, any non-traded REIT co-sponsored by a NorthStar Adviser and RXR Realty will be managed by the NorthStar Adviser, for which NorthStar will be entitled to certain fees associated with managing such entities.

In January 2014, NSAM Parent entered into a long-term strategic partnership with James F. Flaherty III, former Chief Executive Officer of HCP, Inc., in order to expand its healthcare real estate business. In connection with this healthcare strategic partnership, Mr. Flaherty will oversee and seek to grow the healthcare real estate portfolios of NorthStar Realty and NS Healthcare. In addition, the healthcare strategic partnership is expected to focus on raising institutional capital for funds expected to be managed by NorthStar.

NorthStar also will serve as asset manager or investment adviser and provide related services for collective investment vehicles and separate accounts formed in the future.

A Note on the NorthStar Managed Companies

Investors and other recipients of this Brochure should be aware that while this Brochure may include information about the Managed Companies, as necessary or appropriate, the Brochure should not be considered to represent a complete discussion of the features, risks or conflicts associated with any Managed Company. More complete information about each Managed Company is included in such Managed Company's Governing Documents, which may be provided to current and eligible prospective investors only by NorthStar or another authorized party. In no event should this Brochure be considered to be an offer of interests in a Managed Company or relied upon in any determination to invest in a Managed Company. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure.

Rather, this Brochure is designed to provide information about NorthStar for the purpose of compliance with NorthStar's obligations under the Advisers Act. Accordingly, the Brochure responds to relevant

regulatory requirements under the Advisers Act, which may differ from the information provided in a Managed Company's Governing Documents. To the extent that there is any conflict between discussions herein and similar or related discussions in any Governing Document, the relevant Governing Document shall govern.

NorthStar's Advisory Services

NorthStar manages the day to day investment affairs of its Managed Companies, including identifying, originating, acquiring and managing investments on their behalf, and earns asset management and other fees for these services, which may vary based on the amount of assets under management, investment activities and investment performance. The services NorthStar provides to Managed Companies also include monitoring and reporting to the Managed Company on the performance of its investments and determining when and on what terms to finance, refinance or sell investments and execute such transactions.

As a general matter, each Managed Company is managed in accordance with the investment objectives, strategies and guidelines set forth in its Governing Documents and is not tailored to the individual needs of any particular investor.

The focus of NorthStar's investment advisory business is on CRE and CRE debt.

Real Estate Investments

As part of NorthStar's real estate investment advisory business, NorthStar explores a variety of real estate investments in the United States and internationally for its Managed Companies. NorthStar's investment strategy is currently focused on the following asset categories: (i) healthcare properties, (ii) manufactured housing communities, (iii) net lease properties, (iv) multifamily properties, (v) other opportunistic real estate investments such as indirect interests in real estate through real estate private equity funds, and (vi) CRE securities.

- **Healthcare Properties:** Healthcare properties typically net leased to third-party healthcare operators, with a focus on the mid-acuity senior housing sector which includes assisted living, skilled nursing and independent living facilities.
- **Manufactured Housing Communities:** Communities that lease pad rental sites for placement of factory built homes and includes an inventory of manufactured homes.
- **Net Lease Properties:** Real estate net leased to corporate tenants, primarily comprised of office, industrial and retail properties.
- **Multifamily Properties:** Predominately Class A-/B properties located in suburban markets that are best suited to capture the decline in home ownership and formation of new households.
- **Real Estate Private Equity Funds:** Real estate private equity funds managed by institutional-quality sponsors, diversified by property type and geography.
- **CRE Securities:** NorthStar's CRE securities business is predominately comprised of NorthStar CDO bonds and NorthStar CDO equity of deconsolidated NorthStar CDOs and includes other securities, which are mostly conduit commercial mortgage-backed securities ("CMBS"), meaning each asset is a pool backed by a large number of commercial real estate loans. There may also be opportunistic investments in CRE securities such as an investment in a "B-piece" CMBS.

NorthStar Realty or NorthStar also may establish and/or sponsor strategic arrangements and partnerships,

directly or on behalf of one or more of the Managed Companies, such as its recent long-term strategic healthcare real estate partnership with James F. Flaherty III and NorthStar Realty's strategic transaction with RXR Realty.

Real Estate Debt Investments

As part of NorthStar's CRE debt investment advisory business, NorthStar focuses on originating, structuring, acquiring and managing senior and subordinate debt investments for its Managed Companies, secured primarily by commercial, multifamily and healthcare properties, including first mortgage loans, subordinate interests, mezzanine loans, credit tenant loans and other loans, including preferred equity interests in borrowers who own such properties. The collateral underlying such CRE debt investments consists primarily of income-producing real estate assets, properties that require some capital investment to increase cash flows or assets undergoing repositionings or conversions. These instruments are generally held for investment by the Managed Companies, but from time to time NorthStar may syndicate or sell portions of loans to seek to maximize risk-adjusted returns, manage credit exposure and generate liquidity. NorthStar emphasizes direct origination of its debt investments as this allows a greater degree of control over how the investments are underwritten and structured and provides the opportunity to syndicate senior or subordinate interests in the loans, if desired. NorthStar may from time to time cause its Managed Companies to take title to collateral in connection with a CRE debt investment as real estate owned.

Except as provided herein, NorthStar manages each client account on a discretionary basis.

ITEM 5: FEES AND COMPENSATION

Fees are separately determined for each client.

NorthStar Realty

The fees received by NorthStar are primarily driven by NorthStar's ability to raise capital for existing and potential Managed Companies. NorthStar's advisory contract with NorthStar Realty provides for both an annual base management fee and an incentive fee. The annual base management fee, calculated and payable quarterly in arrears in cash, equal to the sum of:

- \$100 million;
- an additional annual base management fee equal to 1.5% per annum of the sum of:
 - cumulative net proceeds of all common equity and preferred equity raised at NorthStar Realty after December 10, 2013;
 - equity issued in exchange or conversion of exchangeable notes based on the stock price at the date of issuance;
 - any other issuances of common equity, preferred equity or other forms of equity, including but not limited to units in an operating partnership; and
 - cumulative cash available for distribution ("CAD") in excess of cumulative distributions paid on common stock or other equity awards beginning the first full calendar quarter after the formation of NSAM;

- an additional annual base management fee equal to the greater of: (a) \$10 million or (b) for the applicable quarter, the portion of distributable cash flow from NorthStar Realty's equity interest related to the asset management business of RXR Realty calculated based on the percentage of the gross revenues from the asset management business of RXR Realty over the total revenues (net of all investment related costs and expenses excluding non-cash and corporate level costs and expenses) of RXR Realty for the applicable period; and
- an additional annual base management fee equal to the greater of: (a) \$10 million or (b) for the applicable quarter, the portion of distributable cash flow from NorthStar Realty's (or its subsidiaries') equity interests related to Aerium Holdings S.A., a public limited liability company (*société anonyme*) organized and established under the laws of Luxembourg, and Sweetfairy Holdings Ltd., a limited liability company organized under the laws of Cyprus.

Incentive fees, calculated and payable quarterly in arrears in cash, are equal to:

- the product of: (a) 15% and (b) CAD before such incentive fee, divided by the weighted average shares outstanding for the calendar quarter, when such amount is in excess of \$0.195 per share but less than \$0.225 per share; plus
- the product of: (a) 25% and (b) CAD before such incentive fee, divided by the weighted average shares outstanding for the calendar quarter, when such amount is equal to or in excess of \$0.225 per share;
- multiplied by the weighted average shares outstanding for the calendar quarter.

NorthStar also receives incentive fees in connection with the long-term strategic partnership with James F. Flaherty ranging from 20-25% above certain specified "hurdle" rates in connection with new and existing healthcare real estate investments on NorthStar's balance sheet and new investments in future healthcare real estate funds raised by the partnership. The partnership will also be entitled to the incentive fees earned by NorthStar from managing NorthStar's healthcare non-traded REIT and any future healthcare non-traded REITs sponsored by NorthStar.

With respect to incentive fees, such amounts may be appropriately adjusted from time to time to take into account the effect of any stock split, reverse stock split or stock dividend.

Other Managed Companies

Fees		NS Income	NS Healthcare	NS Income II
Asset management fees ⁽¹⁾		1.25% of Assets	1.00% of Assets	1.25% of Assets
Acquisition fees ⁽²⁾		1.00% of Investment	1.00% of Investment (2.25% for real estate properties)	1.00% of Investment
Disposition fees ⁽³⁾		1.00% of	1.00% of sales price of debt	1.00% of

	sales price	(2.00% for real estate properties)	sales price
Incentive fee ⁽⁴⁾	15% of net cash flows after an 8% return	15% of net cash flows after a 6.75% return	15% of net cash flows after a 7% return

- (1) Assets represent principal amount funded or allocated for debt investments originated or acquired and the cost of all other investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or the NSAM Parent's proportionate share thereof in the case of an investment made in a joint venture).
- (2) Calculated based on the amount funded or allocated by the Managed Company to originate or acquire investments, including acquisition expenses and any financing attributable to such investments.
- (3) Calculated based on contractual sales price of each investment sold.
- (4) NSAM Parent is entitled to receive distributions equal to 15% of net cash flows of the respective Managed Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus the respective cumulative, non-compounded annual pre-tax return (as noted in the table above) on such invested capital.

Other Expenses

Managed Companies bear the costs associated with their investments (including costs related to the establishment and maintenance of investment vehicles) and are required to reimburse NorthStar for such costs if incurred by it. Such expenses may include, without limitation, fees paid to joint venture partners (which may include asset management fees), property management fees and compensation and costs of management and leasing personnel, developer fees, costs related to construction and maintenance, custodian fees, fees of legal counsel, accountants, outside appraisers and real estate brokers, and fees for architectural, engineering or other studies or reports related to proposed or existing investments, fees and expenses of unaffiliated parties incident to the preparation and distribution of reports and travel expenses and other out-of-pocket property and portfolio expenses, incurred in connection with the evaluation, negotiation, operations or sale of proposed or existing investments and operations of portfolios. Such reimbursements are not to exceed the greater of: (i) 2.0% of the Managed Company's average invested assets; or (ii) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period.

Managed Companies also generally bear their own operating and other expenses (in addition to those listed above) including, but not limited to: (i) sales expenses; (ii) legal expenses; (iii) internal and external accounting, audit and tax preparation expenses; (iv) insurance; and (v) operating expenses. Please see Item 12 for a discussion of factors that may affect the costs of executing portfolio transactions.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Performance based compensation arrangements, if any, are negotiated with each client on an individualized basis and will in all cases be in compliance with Section 205(3) of, or Rule 205-3 under, the

Advisers Act. In some cases, the payment of performance-based compensation may be subject to a specified “hurdle” rate.

Performance-based compensation may be deemed to create a conflict of interest for NorthStar, as there could be an incentive for the adviser to: (i) value assets in a manner that increases NorthStar’s remuneration and (ii) make investments that are riskier or more speculative than would be the case in the absence of performance-based compensation. In addition, if some Managed Companies pay a performance-based fee or allocation while others do not, or if different Managed Companies pay different levels of asset-or performance-based fees or allocations, this may give rise to potential conflicts of interest. For example, NorthStar has an incentive to favor those Managed Companies for which it begins receiving incentive fees at a lower “hurdle” rate because NorthStar will benefit more from the improved performance of such Managed Companies. Similarly, NorthStar has an incentive to favor those Managed Companies that pay a greater management fee over those Managed Companies that pay a lesser management fee because NorthStar will receive greater compensation by doing so.

The allocation of NorthStar’s operating expenses among the Managed Companies may also create conflicts of interest. NorthStar allocates certain expenses associated with managing Managed Company assets among the applicable Managed Companies, based on the services provided to each Managed Company, at the discretion of NorthStar. This may create incentives for NorthStar to allocate investment opportunities among the Managed Companies, based on the adviser’s expenses that the Managed Company will assume.

NorthStar seeks to treat all Managed Companies in a fair and equitable manner at all times and will act in a manner that it believes to be in the best interests of Managed Companies. To that end, NorthStar has established a variety of policies and other controls regarding allocation of investment opportunities, including those seeking to manage the conflicts of interest identified above. Please see “**Item 12: Brokerage Practices**” below for more information.

ITEM 7: TYPES OF CLIENTS

Managed Companies may be organized as domestic or offshore (non-U.S.) companies, limited partnerships, limited liability companies or other legal entities, as determined appropriate by NorthStar. As a general matter, each Managed Company is managed in accordance with its investment objectives, strategies and guidelines and is not tailored to the individual needs of any particular investor and an investment in a Managed Company does not, in and of itself, create an advisory relationship between the investor and NorthStar. Therefore, investors must consider whether the Managed Company meets their investment objectives and risk tolerance prior to investing in a Managed Company. Generally, Managed Companies are not “investment companies” under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The Managed Companies may impose qualification requirements and/or minimum investments.

NorthStar seeks to provide investment advisory services to U.S. institutional investors (such as private or public pension plans, endowments, foundations and trusts) through separate account arrangements and to private investment funds or joint ventures. NorthStar generally provides investment management services to separate account clients in accordance with the investment guidelines and restrictions that are developed in consultation with the client or in accordance with the mandate selected by the client.

Real Estate Funds. Some Managed Companies may be REITs for U.S. tax purposes or include REITs in their organizational structure. Managed Companies include both publicly offered traded and non-

traded REITs.

Private Funds. Private funds are U.S. and non-U.S. pooled investment vehicles that are offered to investors on a private placement basis or under Regulation S under the Securities Act of 1933. Private funds typically are excepted from the definition of an “investment company” pursuant to Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

The Governing Documents for each Managed Company may set minimum amounts for investment by prospective investors in such company. These amounts may be waived by NorthStar.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies

NorthStar invests in a broad spectrum of commercial real estate assets on behalf of the Managed Companies and may pursue opportunistic investments across the business lines of its Managed Companies, including CRE debt and equity investments. NorthStar’s ability to invest across the CRE market creates complementary and overlapping sources of investment opportunities based upon common reliance on real estate fundamentals and application of similar portfolio management skills. When providing investment advisory services, NorthStar advises its Managed Companies with respect to all phases of the real estate investment process, including identifying, originating, acquiring, managing, financing/refinancing and divesting of investments.

NorthStar uses a rigorous investment and underwriting process that has been developed and utilized by its senior management team leveraging their extensive commercial real estate expertise over many years and focuses on the following factors designed to ensure each investment is being evaluated appropriately: (i) macroeconomic conditions that may influence operating performance; (ii) fundamental analysis of the underlying real estate collateral, including tenant rosters, lease terms, zoning, operating costs and the asset’s overall competitive position in its market; (iii) real estate market factors that may influence the economic performance of the collateral including leasing conditions; (iv) the operating expertise and financial strength and reputation of the sponsor or borrower; (v) the cash flow in place and projected to be in place over the term of the loan and potential return to the sponsor or borrower; (vi) the appropriateness of estimated costs associated with tenant buildout, repositioning or capital improvements; (vii) a valuation of the property, NorthStar’s investment basis relative to its value and the ability to liquidate an investment through a sale or refinancing of the underlying asset; (viii) review of third-party reports including appraisals, engineering and environmental reports; (ix) physical inspections of properties and markets; (x) the overall legal structure of the investment, contractual implications and the lenders’ rights; and (xi) the tax and accounting impact.

NorthStar seeks to make real estate and real estate debt investments that offer attractive risk-adjusted returns and evaluate the risk based upon established underwriting criteria and the pricing of comparable investments.

Real Estate Investments

As part of NorthStar’s real estate investment advisory business, NorthStar explores a variety of real estate investments in the United States and internationally for its Managed Companies. NorthStar’s investment strategy is currently focused on the following asset categories: (i) healthcare properties, (ii) manufactured housing communities, (iii) net lease properties, (iv) multifamily properties, (v) other opportunistic real estate

investments such as indirect interests in real estate through real estate private equity funds, and (vi) CRE securities. NorthStar also may establish and/or sponsor strategic arrangements and partnerships, directly or on behalf of its Managed Companies.

Real Estate Debt Investments

As part of NorthStar's CRE debt investment advisory business, NorthStar focuses on originating, structuring, acquiring and managing senior and subordinate debt investments for its Managed Companies, secured primarily by commercial, multifamily and healthcare properties, including first mortgage loans, subordinate interests, mezzanine loans, credit tenant loans and other loans, including preferred equity interests in borrowers who own such properties. The collateral underlying such CRE debt investments consists primarily of income-producing real estate assets, properties that require some capital investment to increase cash flows or assets undergoing repositionings or conversions. These instruments are generally held for investment by the Managed Companies, but from time to time NorthStar may syndicate or sell portions of loans to seek to maximize risk-adjusted returns, manage credit exposure and generate liquidity. NorthStar directly or in connection with its Managed Companies emphasizes direct origination of its debt investments as this allows a greater degree of control over how the investments are underwritten and structured and provides the opportunity to syndicate senior or subordinate interests in the loans, if desired. NorthStar may from time to time cause its Managed Companies to take title to collateral in connection with a CRE debt investment as real estate owned.

When NorthStar's Managed Companies invest directly in real estate debt, they earn interest income and origination fees and other fee income paid by the borrower. The Managed Companies may also leverage the investment to earn a spread between the yield on the asset and the cost of funds in order to increase returns.

Leverage Strategy

NorthStar may employ leverage on behalf of its Managed Companies. NorthStar's financing strategy focuses on match funding assets and liabilities by having similar maturities and like-kind interest rate benchmarks (fixed or floating) to manage refinancing and interest rate risk. In terms of CRE debt and securities investments and real estate portfolios, NorthStar pursues a variety of financing arrangements such as securitization financing transactions, credit facilities, mortgage notes and other term borrowings. The amount of borrowings may depend upon the nature and credit quality of the Managed Company's assets, the structure of its financings and where possible, NorthStar seeks to limit recourse borrowings. Currently, the Managed Companies real estate portfolios are predominately financed with non-recourse mortgage notes.

Hedging. Accounts may be hedged using various derivative instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts as well as engaging in short sales of securities or of future contracts. NorthStar does not currently use hedging for speculative purposes.

Material Risks

An investment in a Managed Company involves risk. There is no certainty of return with respect to any such investment. There is no guarantee that a Managed Company will achieve its goals, objectives or targeted returns (if applicable).

Below is a summary of certain risks associated with an investment in a Managed Company. Investors should

refer to the risk factors in each Managed Company's public filings, prospectus, offering memorandum, governing documents or other documents (as applicable) provided to, or made available to, prospective investors for a more complete description of the risks associated with the investment in such Managed Company. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Managed Companies. These risk factors include those risks NorthStar believes to be material, significant or unusual and relate to particularly significant investment strategies or methods of analysis employed by NorthStar.

General Risks

- *General Economic and Market Conditions.* Challenging economic and financial market conditions may result in delinquencies, non-performing assets and taking title to collateral and a decrease in the value of the property or other collateral which secures the Managed Companies' investments, all of which could adversely affect their results of operations. The Managed Companies may incur loan losses and need to establish provision for loan losses even with respect to loans that are performing in accordance with their contractual terms and consequently do not constitute non-performing loans. Loan defaults result in a decrease in interest income and may require the establishment of, or an increase in, provision for loan losses.

The Managed Companies manage a diversified portfolio of debt and equity investments. As a result of the economic and market conditions, the value of collateral securing any of their debt investments could decrease below the outstanding principal amount of such investment. In addition, revenue generated by the properties and other assets underlying any investments they may make could decrease, making it more difficult for borrowers and tenants/operators to meet their payment obligations to the Managed Companies. Each of these factors would increase the likelihood of default and taking title to collateral or transferring title of collateral to a third-party lender, which would likely have a negative impact on the value of the Managed Companies' portfolios.

More generally, the risks arising from the current financial market and economic conditions are applicable to all of the investments the Managed Companies may make, including their debt investments, whether mortgage, subordinate or other loans or direct senior housing and other healthcare real estate investments, the performance of which depends on the performance of the operator to which the property is leased, whose business may be adversely impacted by these conditions. These conditions, or similar conditions that may exist in the future, may materially adversely affect NorthStar's business, financial condition and results of operations, and the Managed Companies' ability to make distributions.

- *Interest Rate Risks.* The financial performance of the Managed Companies is influenced by changes in interest rates, in particular, as such changes may affect CRE securities, floating-rate borrowings and CRE debt to the extent such debt does not float as a result of floors or otherwise. Changes in interest rates, including changes in expected interest rates or "yield curves," affect the Managed Companies' businesses in a number of ways. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with interest-bearing borrowings and hedges. Changes in the level of interest rates also can affect, among other things, the Managed Companies' abilities to acquire CRE securities, originate or acquire CRE debt at attractive prices and enter into hedging transactions. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the Managed Companies' control.
- *Leverage.* The use of leverage tends to amplify the effect of increases or decreases in the value of

assets held in a Managed Company. Accordingly, the use of leverage may cause a Managed Company's value to be more volatile than it would be in the absence of such leverage. In addition, to the extent a strategy employed on behalf of a Managed Company is dependent on leverage, the availability (or lack thereof) and cost of financing may significantly affect the ability of the Managed Company to execute its investment strategy.

- *Litigation.* In the ordinary course of business, owners of real estate may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of an investment and may continue without resolution for long periods of time.
- *Risky and Illiquid Investments.* Real estate and related investments are generally risky and illiquid. Additionally, investments in private equity funds may be particularly illiquid, as there is often no secondary market in private equity securities and private equity investments often have "lock-up periods" during which an investor may not sell its interests. As a result, a Managed Company's ability to sell commercial real estate investments in response to changes in economic and other conditions, could be limited, even at distressed prices. The Internal Revenue Code also places limits on a Managed Company's ability to sell properties in certain circumstances. These considerations could make it difficult for a Managed Company to dispose of any of its assets even if a disposition were in the best interests of its investors. As a result, a Managed Company's ability to vary its portfolio in response to further changes in economic and other conditions may be relatively limited, which may result in losses.
- *Operational Risks.* Many investments are subject to operational risks – risks that the internal processes and systems designed to operate a business, property or other entity safely and efficiently are in some fashion inadequate or that the individuals tasked with managing such processes and systems fail to properly carry out their functions.
- *Foreign Investments.* NorthStar intends to invest in issuers located in foreign countries. Accordingly, the business and financial results of the Managed Companies in the future could be adversely affected due to currency fluctuations, social or judicial instability, acts or threats of terrorism, changes in governmental policies or policies of central banks, expropriation, nationalization and/or confiscation of assets, price controls, fund transfer restrictions, capital controls, exchange rate controls, taxes, inadequate intellectual property protection, unfavorable political and diplomatic developments, changes in legislation or regulations and other additional international developments or restrictive actions. These risks are especially acute in emerging markets. As in the United States, many non-U.S. jurisdictions in which Managed Companies may do business have been negatively impacted by recessionary conditions. Non-U.S. investments may also be subject to extensive regulation by various non-U.S. regulators, including governments, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate.
- *Market Volatility.* Periods of market volatility and lack of liquidity may make the valuation process pertaining to certain of the Managed Companies' assets difficult, particularly any CMBS assets for which there was limited market activity. NorthStar's estimate of the value of these investments will be primarily based on active issuances and the secondary trading market of such securities as compiled and reported by independent pricing agencies. NorthStar's estimate of fair value, which will be based on the notion of orderly market transactions, requires significant judgment and consideration of other indicators of value such as current interest rates, relevant market indices, broker quotes, expected cash flow and other relevant market data as appropriate. NorthStar's estimates could be wrong and there is a heightened risk of this during challenging and volatile market environments. The amount that a Managed Company could obtain if NorthStar were forced to liquidate securities investments into the current market could be materially different than management's best estimate of fair value.

- *Credit Spread Risk.* The Managed Companies' investments in commercial real estate loans are subject to changes in credit spreads. When credit spreads widen, the economic value of such investments decrease. Even though such investment may be performing in accordance with its terms and the underlying collateral has not changed, the economic value of the investment may be negatively impacted by the incremental interest foregone from the widened credit spread.
- *Competition.* The Managed Companies face competition from other real estate investors, some of which have greater financial resources, including publicly-traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors and that competition may limit the amount of new investments that NorthStar is able to offer its Managed Companies. NorthStar may not be able to compete successfully for investments. In addition, the number of entities and the amount of funds competing for suitable investments may increase.

Real Estate-Related Risks.

- *Real Estate Risk.* The Managed Companies' investments in real estate will be subject to risks typically associated with real estate. The value of real estate may be adversely affected by a number of risks, including, without limitation:
 - natural disasters such as hurricanes, earthquakes and floods;
 - acts of war or terrorism, including the consequences of terrorist attacks;
 - adverse changes in national and local economic and real estate conditions;
 - an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective operators;
 - changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;
 - costs of remediation and liabilities associated with environmental conditions affecting properties; and
 - the potential for uninsured or underinsured property losses.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenses associated with properties (such as operating expenses and capital expenses) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the value and return that the Managed Companies can realize.

- *Commercial Real Estate.* CRE debt and securities investments are generally directly or indirectly secured by a lien on real property. The occurrence of a default on a CRE debt investment could result in acquiring ownership of the property. NorthStar does not know whether the values of the properties ultimately securing CRE debt and ultimately securing the mortgage loans underlying CRE securities will remain at the levels existing on the dates of origination of these underlying mortgage loans and the dates of origination of the loans ultimately securing the CRE securities, as applicable. If the values of the properties drop, the risk will increase because of the lower value of the collateral and reduction in borrower equity associated with the related loans. In this manner, real estate values could impact the values of CRE debt and securities investments. CRE equity investments may be similarly affected by real estate property values. Therefore, CRE equity, debt and securities investments are subject to the risks typically associated with real estate.

- *Subordinate Debt Investments.* The Management Companies may originate or acquire subordinate commercial real estate debt, including subordinate mortgage and mezzanine loans and participations in such loans. In the event a borrower declares bankruptcy, the Managed Companies may not have full recourse to the assets of the borrower or the assets of the borrower may not be sufficient to satisfy the first mortgage loan and subordinate debt investment. If a borrower defaults on a Managed Company's subordinate debt or on debt senior to its debt, or in the event of a borrower bankruptcy, a Managed Company's subordinate debt will be satisfied only after the senior debt is paid in full. Where debt senior to a Managed Company's debt investment exists, the presence of inter-creditor arrangements may limit a Managed Company's ability to amend its debt agreements, assign its debt, accept prepayments, and exercise remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to its borrowers. As a result, the Managed Companies may not recover some or all of their investment. In addition, real properties with subordinate debt may have higher loan-to-value ratios than conventional debt, resulting in less equity in the real property and increasing the risk of loss of principal and interest.
- *Environmental Risks.* The Managed Companies may invest in real estate, or mortgage loans secured by real estate, with environmental problems that materially impair the value of the real estate. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous substances released at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. The Managed Companies may experience environmental liability arising from conditions not known to them.
- *Casualty Losses; Uninsurable Losses.* NorthStar expects to maintain comprehensive casualty insurance on its investments, including liability and fire and extended coverage. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods and hurricanes that may be uninsurable or not economically insurable. The Managed Companies may or may not require borrowers to obtain terrorism insurance if it is deemed commercially unreasonable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the property, which might impair a Managed Company's security and decrease the value of the property. For debt investments, the Managed Companies are subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance.
- *Financial Condition of Tenants or Operators.* NorthStar's real estate investments may be adversely affected by financial difficulties experienced by any of its major tenants/operators, including bankruptcy, insolvency or a general downturn in the business, or in the event any of NorthStar's major tenants/operators do not renew or extend their relationship with NorthStar as their lease terms expire.

The Managed Companies are exposed to the risk that the tenants/operators of properties in which they invest may not be able to meet their obligations to the Managed Companies or other third

parties, which may result in their bankruptcy or insolvency. Although the leases and loans permit NorthStar and the Managed Companies to evict a tenant/operator, demand immediate repayment and pursue other remedies, bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant/operator in bankruptcy may be able to restrict NorthStar's ability to collect unpaid rents or interest during the bankruptcy proceeding. Furthermore, dealing with a tenant/operator's bankruptcy or other default may divert management's attention and cause Managed Companies to incur substantial legal and other costs.

- *Commercial Mortgage Backed Securities Risk.* The Managed Companies have invested and may invest in a variety of CMBS, including subordinate securities that are subject to the first risk of loss if any losses are realized on the underlying mortgage loans. CMBS entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial mortgage loans. Consequently, CMBS will be adversely affected by payment defaults, delinquencies and losses on the underlying commercial real estate loans, which began to increase significantly toward the end of 2008 and are expected to continue into 2014. Furthermore, if the rental and leasing markets do not continue to improve, including by increasing occupancy rates and increasing market rental rates, it could reduce cash flow from the loan pools underlying the Managed Companies' CMBS investments. The CMBS market is dependent upon liquidity for refinancing and will be negatively impacted by a slowdown in the new issue CMBS market.
- *Collateralized Debt Obligations.* CDOs are multiple class securities secured by pools of assets, such as CMBS, mortgage loans, subordinate mortgage and mezzanine loans and REIT debt. Like typical securitization structures, in a CDO, the assets are pledged to a trustee for the benefit of the holders of the CDO bonds. Like CMBS, CDO notes are affected by payments, defaults, delinquencies and losses on the underlying loans or securities. To the extent a Managed Company retains or invests the equity interests of a CDO, it is entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the senior securities and its expenses. There may be little or no income or principal available to the holders of CDO equity interests if defaults or losses on the underlying collateral exceed a certain amount. In that event, the value of investments in any equity interest of a CDO could decrease substantially. In addition, the equity interests of CDOs are illiquid and often must be held by a REIT and because they represent a leveraged investment in the CDO's assets, the value of the equity interests will generally have greater fluctuations than the value of the underlying collateral.

Healthcare Real Estate-Related Risk

- *Regulation of the Healthcare Industry.* The healthcare industry is heavily regulated by federal, state and local governmental bodies. Healthcare facility operators, including those in the senior housing sector, generally are subject to laws and regulations covering, among other things, licensure, certification for participation in government programs, and relationships with physicians and other referral sources. Changes in these laws and regulations could negatively affect the ability of the Managed Companies' operators to make lease payments to the Managed Companies.
- *Reform of the Healthcare Industry.* On March 23, 2010, the President of the United States signed into law the Patient Protection and Affordable Care Act and on March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act of 2010, or the Reconciliation Act, which in part modified the Patient Protection and Affordable Care Act. Together, the two laws serve as the primary vehicle for comprehensive healthcare reform in the United States and will become effective through a phased approach, which began in 2010 and will conclude in 2018. The laws are intended to reduce the number of individuals in the United States without health insurance and significantly

change the means by which healthcare is organized, delivered and reimbursed. The Patient Protection and Affordable Care Act expands reporting requirements and responsibilities related to facility ownership and management, patient safety and care quality. In the ordinary course, these investments may be regularly subjected to inquiries, investigations and audits by federal and state agencies that oversee these laws and regulations.

- *Legal Actions Risk.* The Managed Companies' operators may be subject to claims that their services have resulted in resident injury or other adverse effects. The insurance coverage maintained by operators, whether through commercial insurance or self-insurance, may not cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and litigation may not, in certain cases, be available to the operators due to state law prohibitions or limitations of availability. As a result, the operators operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. From time-to-time, there may also be increases in government investigations of long-term care providers, particularly in the area of Medicare/Medicaid false claims and resident care, as well as increases in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or government investigation, whether currently asserted or arising in the future, could lead to potential termination from government programs, large penalties and fines and otherwise have a material adverse effect on a healthcare operator's financial condition.
- *Demand for Assisted Living Services.* Events could occur that could adversely affect the ability of seniors to afford the monthly resident fees or entrance fees (including downturns in the economy, housing market, consumer confidence or the equity markets) and, in turn, materially adversely affect NorthStar's business, financial condition and results of operations and the Managed Companies' ability to make distributions. Costs to seniors associated with assisted living services are generally not reimbursable under government reimbursement programs such as Medicare and Medicaid. Only seniors with income or assets meeting or exceeding the comparable median in the regions where facilities will be located typically will be able to afford to pay monthly resident fees for the mid-acuity type senior housing facilities the Managed Companies seek to acquire. Economic downturns, softness in the housing market, lower levels of consumer confidence, reductions or declining growth of government entitlement programs, such as social security benefits, stock market volatility and changes in demographics could adversely affect the ability of seniors to afford the monthly resident fees or entrance fees for senior housing facilities.
- *Reductions in Reimbursements.* Reimbursement rates from third-party payors have been reduced in the past and could be reduced again in the future, which would materially adversely affect the financial condition, results of operations the ability to make distributions of the Managed Companies. The Managed Companies' ability to generate revenue and profit influences the underlying value of their mid-acuity senior housing facilities. With respect to the Managed Companies' skilled nursing facilities primarily, these revenues are generally derived from reimbursements paid to their operators. Sources of reimbursements include Medicare, state Medicaid programs, private insurance carriers, healthcare service plans, health maintenance organizations, preferred provider arrangements, self-insured employers and the patients themselves. Medicare and Medicaid programs, as well as numerous private insurance and managed care plans, generally require participating providers to accept government-determined reimbursement levels as payment in full for services rendered, without regard to a facility's charges. Changes in the reimbursement rate or methods of payment from third-party payors, including

Medicare and Medicaid, or the implementation of other measures to reduce reimbursements, have in the past, and could in the future, result in a substantial reduction in the Managed Companies' operators' revenues and, therefore, their operators' ability to pay rent.

- *Adverse Trends.* The healthcare industry, including the senior housing sector, is currently experiencing:
 - changes in the demand for and methods of delivering healthcare services;
 - changes in third-party reimbursement policies;
 - significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas;
 - continued pressure by private and governmental payors to reduce payments to providers of services; and
 - increased scrutiny of billing, referral and other practices by federal and state authorities.

These factors may adversely affect the economic performance of some or all of the Managed Companies' targeted senior housing and other healthcare-property operators and, in turn, the Managed Companies' lease revenues and the Managed Companies' ability to make distributions.

ITEM 9: DISCIPLINARY INFORMATION

Not applicable.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Each NorthStar Adviser is an indirect subsidiary of NSAM Parent. In some cases, NorthStar Advisers may have business arrangements with related person/companies that are material to their advisory business or to the Managed Companies. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between a NorthStar Adviser and a Managed Company.

NorthStar Realty, one of the Managed Companies, is a minority owner of RXR Realty, a real estate operating and investment management company focused on the New York City Tri-State area. Any REIT co-sponsored by NorthStar Realty and RXR Realty will be managed by a NorthStar Adviser, for which the NorthStar Adviser expects to receive fees. Additionally, NorthStar Realty is entitled to certain fees based on the performance of RXR Realty's investment management business.

NorthStar also formed a partnership with James F. Flaherty III, former Chairman and Chief Executive officer of HCP, Inc. Mr. Flaherty will help to manage the healthcare real estate portfolios of NorthStar Realty and other Managed Companies. The partnership with Mr. Flaherty will be entitled to incentive fees ranging from 20-25% above certain hurdles in connection with new and existing healthcare real estate investments on NorthStar's balance sheet and new investments in future healthcare real estate funds raised by the partnership. The partnership will also be entitled to the incentive fees earned by NorthStar from managing NorthStar's healthcare non-traded REIT and any future healthcare non-traded REITs sponsored by NorthStar.

NorthStar Realty Securities, LLC ("NorthStar Securities"), a wholly-owned subsidiary of NSAM Parent, is a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is a member of the Financial Industry Regulatory Authority ("FINRA"). NorthStar Securities is responsible for marketing shares of the Managed Companies and serves as the distribution channel for the sale of shares of

the Managed Companies. Where consistent with NorthStar's duty to seek best execution and subject to each Managed Company's Governing Documents and applicable law, NorthStar Securities may be engaged as a broker-dealer to execute client portfolio transactions. Because NSAM Parent owns NorthStar Securities, NorthStar may have an incentive to select NorthStar Securities over other broker-dealers that may provide comparable services.

NorthStar also pays fees to affiliated and unaffiliated entities to provide account services to the Managed Companies and to manage properties in which Managed Companies invest. NorthStar may have incentives to select the services of affiliated entities, even if such services could be provided as well by unaffiliated entities.

A Managed Company may have an investment mandate that is similar to, but not directly overlapping with, the investment mandates of another Managed Company. Additionally, NorthStar investment professionals will continue to devote time to the management of multiple Managed Companies, which may create conflicts in the allocation of management resources. Investment opportunities may arise that are appropriate for more than one Managed Company. In these situations, such opportunities will be allocated among the Managed Companies based on the appropriateness of an investment by each applicable Managed Company, as described more fully in the various Managed Companies' Governing Documents. If, after consideration of the relevant factors, NorthStar's investment professionals determine that an investment is equally suitable for multiple Managed Companies, the investment will be allocated among each of the applicable Managed Companies on a rotating basis. If, after an investment has been allocated to a Managed Company, a subsequent event or development, such as delays in structuring or closing on the investment, makes it, in the opinion of NorthStar's real estate professionals, more appropriate for a different Managed Company, NorthStar may determine to place the investment with the more appropriate Managed Company while still giving credit to the original allocation. In certain situations, NorthStar may determine to allow more than one Managed Company to co-invest in a particular investment.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

NorthStar has adopted a Code of Ethics (the "Code") that applies to all NorthStar employees. This Code describes the standard of conduct that NorthStar requires of all of its employees and describes certain restrictions on activities such as personal trading, receipt of material, non-public information, and engaging in outside business activities. Compliance with the Code is a condition of employment for all of NorthStar's employees, and a serious violation of the Code or its related policies may result in serious reprimand, up to and including dismissal. Certain key provisions of the Code are summarized below. NorthStar will provide a copy of the Code to any client or prospective client upon request.

Personal Trading

Employees considered "access persons" within the meaning of Rule 204A-1 under the Advisers Act may purchase and sell for their own accounts the same securities purchased or sold on behalf of Managed Companies. However, given the nature and size of the real estate investments made on behalf of Managed Companies, such personal trading activity is not expected to be likely. Notwithstanding the probability of such activity, because the Code permits employees to invest in the same securities as Managed Companies, there is a possibility that employees might benefit from market activity by a Managed Company in a security or other investment held by an employee. To mitigate this possible

conflict of interest and others that may arise, NorthStar has established policies requiring “access persons” to obtain pre-clearance before investing in certain reportable securities such as private placements. In addition, NorthStar monitors for conflicts of interest on a periodic basis and will not allow any of its “access persons” to buy or sell securities for their own accounts at or about the same time that NorthStar buys or sells securities or other investments for Managed Companies if NorthStar feels that there is a possibility that the personal trade would benefit from NorthStar’s investment activities.

All of NorthStar’s employees are required to annually certify that they have complied with the Code and NorthStar’s access persons are required to make annual reports regarding their personal securities account holdings and quarterly reports regarding their personal securities trading activity.

Participation or Interest in Client Transactions

NorthStar employees must obtain prior written permission of the CCO for certain transactions that appear to pose a conflict of interest or otherwise appears improper. In particular, all NorthStar employees must have written clearance for all transactions involving initial public offerings and private placements before completing the transactions. Additionally, co-investments with Managed Companies could present conflicts of interest if not properly structured and monitored. As such, NorthStar employees must have written clearance for all transactions involving co-investments alongside Managed Companies before completing the transactions. The CCO or designee is responsible for monitoring co-investments by the NorthStar and its employees. NorthStar will maintain a restricted list of securities in which NorthStar may have material non-public information. NorthStar employees are prohibited from trading in issuers on the restricted list.

Gifts and Entertainment

NorthStar has policies in place governing the types and value of gifts and forms of entertainment that its employees may accept from broker-dealers, vendors, current or prospective clients.

Cross-Trades and Principal Transactions

NorthStar generally does not engage in cross trades among Managed Companies. However, to the extent that it does so in the future, such cross trades will be executed at the market price (or fair value) consistent with any required approvals and with independent third-party valuation procedures established by NorthStar and the relevant Managed Companies for the securities or other instruments being purchased and sold, if applicable. NorthStar has implemented policies and procedures to ensure that, if completed, cross trades are, in the reasonable determination of NorthStar, in the best interests of each transacting Managed Company.

Other Conflicts

NorthStar manages investments on behalf of different Managed Companies. Certain Clients have investment programs that are similar or may overlap and may, therefore, participate with each other in investments. Because of the diversity of objectives, risk tolerances, tax situations and differences in the timing of capital contributions and withdrawals, there will be differences in invested positions held among the Managed Companies. Any allocation of investments among the Managed Companies by NorthStar will be made in a manner consistent with each Managed Company’s investment objectives. Investment decisions and allocations are not necessarily made in parallel among all of the Managed Companies. In all cases, allocation requirements (if any) set forth in the Managed Companies’ offering documents will control. NorthStar in its sole discretion may allow multiple Managed Companies to co-invest in a particular

investment, based upon a variety of factors including, among other factors, investment strategy, mandate or area of focus; risk management (e.g., volatility, liquidity, diversification and concentration in light of each Managed Company's existing portfolio and investment pipeline); fund restrictions or limitations; tax or legal considerations; and cost or availability of financing. Because NorthStar may allocate a particular investment among the Managed Company's unequally, the Managed Companies may produce results that are materially different from one another.

ITEM 12: BROKERAGE PRACTICES

Transaction Execution and Broker-Dealer Selection

NorthStar seeks to minimize the cost and expense of transactions in real estate investments effected on behalf of Managed Companies while also seeking to achieve the most efficient structure of such investments, taking into account, among other things, tax, regulatory and client-specific considerations. These costs and expenses may vary from Managed Company to Managed Company, and transactions may be effected differently for one Managed Company than another, as a result of various factors, including, without limitation, the location of a client, the location and nature of the particular real estate investment involved, and other client-specific considerations.

NorthStar may occasionally use unaffiliated real estate brokers, which are selected on the basis of: (i) the reasonableness of such real estate brokers' commissions relative to others offering similar services; and (ii) the ability of such real estate brokers to obtain best execution.

Portfolio transactions for the Managed Companies will be allocated to brokers and dealers on the basis of NorthStar's best execution policies. NorthStar's best execution policies require that a Managed Company's investments or trades be placed for execution only with approved brokers or dealers. The factors considered in selecting and approving brokers-dealers that may be used to execute trades for a Managed Company's accounts include, but are not limited to: (i) quality of execution – accuracy and timeliness of execution, clearance and error/dispute resolution; (ii) reputation, financial strength and stability; (iii) market making and risk positioning capabilities; (iv) willingness to execute transactions on terms requested or required; (v) willingness and ability to commit capital for trading as well as financing requests; (vi) access to investment opportunities; (vii) on-going reliability; (viii) overall costs of execution (i.e., net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the firm's knowledge of negotiated transaction costs available in the market; (ix) nature of the investment or security and the available market makers; (x) desired timing of the transaction and size of transaction; (xi) confidentiality of execution; (xii) market knowledge; and (xiii) the quality of brokerage or research.

Portfolio transactions for the Managed Companies may be placed through NorthStar Securities, the affiliated broker-dealer of the NorthStar Advisers. Investors should be aware that such an arrangement may be deemed to create a conflict of interest for NorthStar due to its incentives to direct transactions towards its affiliated broker-dealer. However, NorthStar will utilize NorthStar Securities to execute portfolio transactions for the Managed Companies only in a manner consistent with the above-mentioned best execution policies, client contracts and applicable law.

Allocation Policy

NorthStar has adopted an allocation policy that applies to investment opportunities which have limited capacity and/or time availability. This policy directs NorthStar to allocate investment opportunities among Managed Companies fairly and provides consistent treatment of Managed Companies with

similar investment objectives and guidelines over time to the extent practicable.

When NorthStar sources an investment opportunity, NorthStar, in its sole discretion, will offer the opportunity to the entity for which it determines the investment opportunity is most suitable. When determining the entity for which an investment opportunity would be the most suitable, NorthStar personnel may consider factors such as the investment objectives and strategies of the Managed Companies, the amount of funds available of each Managed Company, the tax effects of the purchase, the risk profile of each Managed Company and anticipated future investment opportunities for the Managed Companies, among others.

If, after consideration of the relevant factors, NorthStar determines that an investment is equally suitable for more than one Managed Company, the investment will be allocated among each of the applicable Managed Companies on a rotating basis. If, after an investment has been allocated, a subsequent event or development, such as delays in structuring or closing on the investment, makes it, in the opinion of NorthStar's real estate professionals, more appropriate for a different entity to fund the investment, NorthStar may determine to place the investment with the more appropriate entity while still giving credit to the original allocation. In certain situations, NorthStar may determine to allow more than one Managed Company to co-invest in a particular investment.

ITEM 13: REVIEW OF ACCOUNTS

Each Managed Company is monitored by the same team that is responsible for performance monitoring and reporting, financial risk management and all non-real estate aspects of the Managed Company such as corporate, legal, tax, accounting, financing, hedging and cash distribution. The team also monitors the due diligence process applicable to potential investments for a Managed Company, transaction structuring, acquisition budgets and transaction documentation. Additionally, NorthStar has an Investment Committee that approves each investment made on behalf of a Managed Company and the allocation of those investments, as discussed in Item 12.

Each Managed Company files publicly with the SEC unaudited reports on a quarterly basis, providing summary financial and other information about the Managed Company, and audited financial statements of the Managed Company annually. NorthStar may provide certain investors with information on a more frequent and detailed basis if agreed to by NorthStar.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

NorthStar does not engage any parties to solicit clients, nor does it receive compensation from sources other than its clients.

ITEM 15: CUSTODY

In connection with the management of investments for certain Managed Companies, NorthStar may have, or may be deemed to have, custody of a Managed Company's funds or securities. Rule 206(4)-2 (the "Custody Rule") of the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions).

NorthStar expects that each Managed Company for which it is deemed to have custody will: (i) be

audited at least annually by an independent public accountant; and (ii) distribute its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end.

ITEM 16: INVESTMENT DISCRETION

As a general rule, NorthStar receives discretionary investment authority from each Managed Company at the outset of an advisory relationship. Depending on the terms of the Managed Company's investment management agreement, NorthStar's authority may include the ability to select brokers and dealers through which to execute transactions on behalf of the relevant Managed Company, and select the commission rates, if any, at which transactions are effected. In making decisions as to which securities are to be bought or sold and the amounts thereof, NorthStar is guided by the mandate selected by the Managed Company and any Managed Company-imposed guidelines or restrictions. NorthStar generally is not required to provide notice to, consult with, or seek the consent of the Managed Companies prior to engaging in transactions.

ITEM 17: VOTING CLIENT SECURITIES

NorthStar invests primarily in private debt and equity real estate investments on behalf of Managed Companies. Accordingly, NorthStar does not ordinarily receive proxy voting proposals with respect to listed equity securities. However, NorthStar may, from time to time, receive amendments, consents or resolutions applicable to other real estate investments held in Managed Companies (collectively, "proxies") and is generally granted authority to vote and consent on such matters on behalf of Managed Companies.

ITEM 18: FINANCIAL INFORMATION

Not applicable.