

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
FORM ADV PART 2A: FIRM BROCHURE**

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**March 26, 2015**

**This brochure provides information about the qualifications and business practices of Starwood Real Estate Securities, L.L.C., an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (203) 422-7739. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about Starwood Real Estate Securities, L.L.C. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

The last annual update of Part 2 of this Form ADV occurred on March 28, 2014. Since that date, Michael Swotes replaced Matthew Gilman as the portfolio manager [and Chief Executive Officer] of Starwood Real Estate Securities, L.L.C. (“Starwood”) effective March [15], 2015.

### **ITEM 3: TABLE OF CONTENTS**

	<b><u>Page</u></b>
ITEM 2: Material Changes .....	ii
ITEM 3: Table of Contents .....	iii
ITEM 4: Advisory Business.....	1
ITEM 5: Fees and Compensation .....	1
ITEM 6: Performance-Based Fees and Side-By-Side Management.....	2
ITEM 7: Types of Clients .....	3
ITEM 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	3
ITEM 9: Disciplinary Information.....	13
ITEM 10: Other Financial Industry Activities and Affiliations.....	13
ITEM 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	14
ITEM 12: Brokerage Practices.....	19
ITEM 13: Review of Accounts .....	21
ITEM 14: Client Referrals and Other Compensation .....	22
ITEM 15: Custody .....	22
ITEM 16: Investment Discretion .....	22
ITEM 17: Voting Client Securities .....	22
ITEM 18: Financial Information.....	23

#### **ITEM 4: ADVISORY BUSINESS**

Starwood Real Estate Securities, L.L.C. (“Starwood”) is a Delaware limited liability company that commenced operations in October 2004. Starwood sponsors and serves as discretionary investment adviser to private investment funds (the “Funds”) that are currently offered to investors. The Funds primarily consist of U.S. limited liability companies (“US Feeder Funds”) that are generally required to invest substantially all of their assets into Cayman Islands companies (“Master Funds”), and Cayman Islands companies (“Cayman Islands Feeder Funds”) that are generally required to invest substantially all of their assets into Cayman Islands limited partnerships which in turn are generally required to invest substantially all of their assets into the Master Funds. The investments of the US Feeder Funds and Cayman Islands Feeder Funds are managed at the Master Fund-level. Starwood also serves as discretionary investment adviser to a Fund that trades directly without investing into a Master Fund. Starwood also manages several managed accounts for institutional clients and other private investment funds (the “Managed Accounts”). The Funds and Managed Accounts are sometimes referred to herein as the “Clients.”

Starwood is owned by Starwood Real Estate Securities Holdings, LLC (which is wholly owned by Mr. Barry Stuart Sternlicht).

While Starwood does not specialize in any particular type of advisory service, it does focus on a particular sector of the market (*i.e.*, real estate). Starwood advises with respect to real estate-related equities (both common and preferred), including, but not limited to, real estate investment trusts (REITs), real estate operating companies (REOCs), real estate finance companies, undervalued real estate rich operating companies, hotel companies, land companies and homebuilders. Starwood also advises with respect to options and other derivatives.

Starwood has full discretion in trading on behalf of the Funds and therefore does not require, and does not seek, approval from the Funds or the investors in the Funds with respect to its trading. Managed Account Clients may impose certain investment restrictions pursuant to individually negotiated agreements with such Clients. Starwood does not participate in wrap fee programs and does not manage wrap fee accounts.

As of December 31, 2014, Starwood managed approximately \$623million of Client assets on a discretionary basis and \$0 of Client assets on a non-discretionary basis.

#### **ITEM 5: FEES AND COMPENSATION**

##### **Starwood Compensation**

With respect to the Funds, management fees are directly deducted from, on either a monthly or quarterly basis, and performance-based compensation is directly allocated from, on an annual basis, investors’ investments in the Funds. Monthly and quarterly management fees paid by the Funds are paid in advance. Investors who redeem or withdraw from a Fund do not need to seek refunds of management fees because the permitted dates for withdrawals from the Funds are as of either a quarter- or month-end, at which time the management fee will have been earned.

Managed Accounts are generally invoiced on a quarterly basis. Some Managed Accounts are invoiced in advance of each quarter, and others are invoiced in arrears.

Performance-based compensation and management fees may be negotiated on a case-by-case basis for Managed Accounts.

Starwood may, in its discretion, waive or reduce its management fees or performance-based compensation.

Starwood's fee schedule is omitted because this Brochure is only being delivered to qualified purchasers as defined in the Investment Company Act of 1940, as amended (the "Company Act").

## **Fund Expenses**

In addition to the compensation it pays to Starwood, each Fund also pays all expenses relating to its business, such as investment expenses (*e.g.*, expenses related to the investment of assets, such as brokerage commissions), costs, fees and expenses of the auditors, accountants, legal advisors and administrator of the Fund; directors' fees and expenses (if applicable); custody fees; indemnification expenses; commissions, spreads and interest expense; and other expenses related to the business of such Fund. The Funds have the authority to invest in securities of investment companies that are not managed by Starwood, such as closed-end funds, open-end funds and exchange-traded funds, as part of the Funds' hedging, trading and investment strategies. To the extent that a Fund invests in such securities, such Fund incurs layered fees; that is, it not only pays fees directly to Starwood, but also pays fees charged by the entities that manage the investment company's securities. Such fees may include custodial fees, management fees, early termination fees and other fees and expenses assessed by the sponsor, custodian, transfer agent or other service providers of an investment company.

Managed Accounts generally incur similar types of expenses.

Neither the Funds nor the Managed Accounts pay any of Starwood's internal expenses. *Please also see "Item 12: Brokerage Practices" below.*

Neither Starwood nor any of its supervised persons accept compensation for the sale of securities or other investment products.

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

As described above in "Item 5: Fees and Compensation," Starwood generally receives performance-based compensation with respect to the Funds and the Managed Accounts. Such performance-based compensation is based on a percentage of the appreciation in the net asset value of each investor's interest in the Funds (and the applicable Managed Accounts). The fact that Starwood is compensated based on trading profits may create an incentive for Starwood to make investments on behalf of the Funds and Managed Accounts that are riskier or more speculative than would be the case if Starwood were only compensated based on a flat percentage of assets, because these investments may allow Starwood to collect larger performance-based compensation. In the event that the fees and other remuneration to Starwood

from a Client are higher than those generated by another Client, Starwood would have financial or other incentives to favor Clients generating higher remuneration. In addition, Starwood may assist in determining the fair value of the Funds' (and applicable Managed Accounts') assets which impacts the value of the compensation paid to Starwood. Further, the performance-based compensation received by Starwood is based on realized and unrealized gains and losses. As a result, the performance based compensation earned could be based on unrealized gains that the Funds and Managed Accounts may never realize.

Starwood may advise Clients that pay only an asset-based fee, in which case Starwood may have an incentive to favor Clients that pay both an asset-based fee and performance-based compensation over such Clients that pay only an asset-based fee. Starwood has policies and procedures, including trade allocation policies, designed to manage such conflicts. *Please see "Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading — Conflicts of Interest" below.*

*See also "Item 12: Brokerage Practices" below.*

## **ITEM 7: TYPES OF CLIENTS**

Starwood provides investment advice to the Funds and the Managed Accounts. Investors in the Funds and Managed Accounts are typically high net worth individuals, other pooled investment vehicles, pension and profit-sharing plans, trusts, estates or charitable organizations, and other corporations or business and/or religious entities. The Funds limit investors to U.S. persons who are both "qualified purchasers" as defined in the Company Act and "accredited investors" as defined in the Securities Act of 1933, as amended, and non-U.S. persons. The Funds require a minimum initial investment of \$1 million, although this minimum can be waived in Starwood's sole discretion. The minimum investment for Managed Accounts is determined on a case-by-case basis in Starwood's discretion.

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

*All references in this section to the Funds will be deemed to refer to Starwood's Clients unless the context otherwise requires.*

### **Investment Strategies**

The Funds focus on identifying pricing inefficiencies in real estate securities and real estate-related securities through thorough analysis and research. The rigorous bottom-up research process includes conducting due diligence in the field, leveraging Starwood's and its affiliates' extensive contacts in the industry and analyzing company financials. The Funds seek to buy securities that are trading at reasonable valuations relative to the underlying value of the real estate and that have improving fundamentals. Certain of the Funds may also sell short securities that are over-valued and whose fundamentals are weakening or whose balance sheet is over-leveraged or poorly structured. In addition, these Funds may use shorts to manage risk and to control overall market exposure. Other Funds focus on "long only" positions.

The investment approach of the “long/short” Funds is opportunistic and includes (but is not limited to) the following strategies:

- *Buying and shorting securities outright.* Owning under-valued, well-run companies can provide stable, long-term positive returns. Shorting stocks outright will focus on companies with deteriorating fundamentals, over-leveraged balance sheets and under-funded dividends.
- *Long/short equity.* In general, investing in long and short listed equities entails varying degrees of residual market sensitivity. Strategy approaches typically vary by region, sector, capitalization focus, and investment process.
- *Pair trades.* Pairing (*i.e.*, obtaining a long position in one security while shorting another related security) of similar companies (*i.e.*, companies with similar characteristics such as property type and geographic exposures) with different valuations presents opportunities to capture positive returns in a prudent, low-risk manner.
- *Derivatives and ETFs.* Various strategies are used to manage net long/short exposure and for directional bets. The strategies include, but are not limited to, the use of customized synthetic equities/index derivatives and index exchange-traded funds (“ETFs”). Derivatives may also be used to manage risks and generate income, such as writing covered calls or buying puts on securities to limit the downside.

The investment approach of the “long only” Fund is opportunistic and will focus on “long only” positions. These objectives are achieved by purchasing securities outright, seeking to own under-valued, well-run companies in order to provide stable, long-term positive returns. The strategy approaches will typically vary by region, sector, capitalization focus and investment process. In addition, derivatives may be used to manage risks and generate income, such as writing covered calls.

The Funds have a broad mandate to invest in all types of real estate securities and real estate-related securities; however, the Funds may not invest in physical real estate properties, as well as in securities issued by Starwood Hotels & Resorts Worldwide, Inc. and Starwood Property Trust, Inc. (NYSE: STWD) (“STWD”).

***Risk Management.*** Risk management is of primary importance to Starwood in its effort to preserve capital and provide superior risk-adjusted returns. The risk management process is monitored daily by Starwood on both an individual security and portfolio basis. The Funds are subject to certain general limitations (which may or may not include leverage limitations) as set forth in more detail in the Funds’ confidential offering memoranda or investment advisory agreements.

## **Material Risks of Investment Strategy**

Investing in securities and derivatives involves a risk of loss that investors in the Funds and Managed Account holders should be prepared to bear. Investors are relying on the

discretionary market judgment of Starwood. The following is a summary of some of the material risks associated with Starwood's investment strategies. This summary does not attempt to describe all of the risks associated with an investment in a Fund or holding a Managed Account or all risks associated with the strategies thereof. Although no summary can fully describe all of the risks associated with an investment in the Funds or opening a Managed Account, the confidential offering memorandum for each Fund contains a more complete description of the risks associated with an investment in the Funds.

**General Market Risks.** The investment strategies implemented by Starwood on behalf of its Clients are subject to some dimension of market risk: directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality," "credit squeezes," etc. Starwood's style of alternative investing may be no less speculative than traditional investing strategies. In fact, due in part to the degree of leverage which the Clients may employ and the leverage embedded in the derivative instruments in which the Clients may invest, the Clients may from time to time incur sudden and dramatic losses.

The particular or general types of market conditions in which the Clients may incur losses or experience unexpected performance volatility cannot be predicted, and the Clients may materially underperform other investment funds with substantially similar investment objectives and approaches.

**Market Disruptions.** The Clients may incur major losses in the event of disrupted markets and other extraordinary events in which the value of real estate securities and real estate-related securities becomes severely depressed. In particular, certain of the Clients experienced losses in 2008 during the disruption of markets in general. Such market conditions may repeat in the future in which case the Clients may incur losses again. The risk of loss is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving.

A financial exchange may from time to time suspend or limit trading. Such a suspension could render it impossible for the Clients to liquidate their positions and thereby expose them to losses. There is also no assurance that non-exchange markets will remain liquid enough for the Clients to close out positions.

**Recent Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act.** The global financial markets have in the past few years gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.



The Clients may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Clients from their banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Clients to the extent they utilize financing. Further, Starwood actively manages its risk so any time such disruption occurs, it takes steps to mitigate loss. However there can be no assurance such steps will limit losses.

In response to the recent financial crises of 2008-2009 financial crises, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) was enacted in July 2010. The Reform Act seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of the Reform Act require rulemaking by applicable regulators before becoming fully effective and the Reform Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the full impact of the Reform Act on the Clients, Starwood and the markets in which they trade and invest. The Reform Act could result in certain investment strategies in which the Clients engage or may have otherwise engaged becoming non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to the Reform Act could have a material adverse impact on the profit potential of the Clients.

***Volatility; Real Estate-Related Investments.*** Investments in real estate securities and real estate-related securities are susceptible to the risks associated with direct ownership of real estate, including, without limitation, declining property values, increasing property taxes, operating expenses, changes in the level of prevailing interest rates, competition, overbuilding, zoning changes, changes in general and local economic conditions, eminent domain; fluctuations in rental income; changes in neighborhood values; the appeal of properties to tenants; and losses from casualty or condemnation. Other factors that are beyond the control of Starwood can, in turn, adversely affect the yield or return on real estate securities and real estate-related securities.

The yields available from investments in real estate securities and real estate-related securities depend on the amount of income and capital appreciation generated by the underlying properties. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the real estate company to make payments of any interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. Furthermore, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company may also have joint venture investments in certain of its properties, and consequently, its ability to control decisions relating to such properties may be limited. Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing.

REITs and other real estate-related companies in which Starwood may invest on behalf of its Clients may be affected by changes in the value of the underlying property owned by such entity and by the quality of credit extended. Such entities will also be subject to heavy cash flow dependency, defaults by borrowers, self-liquidation and the possibility of failing to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).

REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that Starwood may invest on behalf of its Clients in a company that purports to be a REIT and that such company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the company would potentially be subject to corporate-level taxation, significantly reducing the return to Starwood’s Clients on their investment in such company.

The prices of some of the real estate securities and real estate-related securities and related instruments in which Starwood trades on behalf of its Clients have been subject to periods of excessive volatility in the past (including over the past several years), and such periods can be expected to recur (or continue). Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest-rate movements and general economic and political conditions.

While volatility can create profit opportunities, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain positions that profit from price movements.

***General Risks of Investments in Real Estate Securities.*** The risks of investing in real estate securities and real estate-related securities include, without limitation, general and local economic and social conditions, fluctuations in real estate values and changes in interest rates.

***Market Illiquidity.*** Despite the generally heavy volume of trading in most of the real estate securities and real estate-related securities traded by the Clients, the market for certain of these instruments may have limited liquidity. Lack of liquidity can make it economically infeasible for the Clients to recognize profits on open positions or to close out open positions against which the market is moving.

***Arbitrage Transaction Risks.*** Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. Starwood may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent Starwood is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants.

***Relative Value Strategy Risk.*** Starwood may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying trading positions were to fail to converge toward, or were to diverge further from, Starwood’s expectations, the Clients

may incur a loss. Even pure riskless arbitrage can result in significant losses if the arbitrage is not sustained (due, for example, to margin calls) until expiration, and Starwood, on behalf of its Clients will rarely engage in true arbitrage as opposed to relative value trading (which is inherently a higher-risk strategy).

In implementing “relative value” strategies Starwood seeks to reduce exposure to the risk of overall market price movements, but is fully exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of its valuation models.

***Directional Trading.*** Certain of the positions taken by Starwood may be designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, may not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

***Leverage.*** Starwood will utilize leverage to varying degrees in connection with trading strategies on behalf of its Clients. (Currently, Starwood only utilizes leverage with respect to a limited number of its Clients). This will result in its Clients controlling more assets than they have in equity. Leverage increases returns if a Client earns a greater return on investments purchased with borrowed funds than the cost of borrowing such funds. However, the use of leverage exposes such Clients to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Clients not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions, and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Clients’ cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the assets, the Clients might not be able to liquidate assets quickly enough to repay their borrowings, further magnifying their losses.

***Financing Arrangements; Availability of Credit.*** The Clients depend on the availability of credit with respect to any use of leverage. There can be no assurance that the Clients will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies and, from time to time (for example, during the “market crises” of 1994, 1998 and 2008 — 2009), have largely eliminated the availability of financing in an attempt to protect their capital. Reductions in available leverage would not only make it difficult for Starwood to implement its strategies prospectively, but also would force Clients to liquidate their existing positions, likely at material losses. Changes by banks and dealers in the foregoing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time as they would be expected to be in times of losses. The imposition of such limitations or restrictions could compel the Clients to liquidate all or part of their portfolio at disadvantageous prices.

**Counterparties and Brokers; Settlement Risk.** The financial institutions and counterparties, including banks and brokerage firms, with which Starwood's Clients trade or invest may encounter financial difficulties and default on their respective obligations to such Clients. Any such default could result in material losses to the Clients.

To the extent that the Clients invest in options, swaps, derivative or synthetic instruments, forward contracts or other over-the-counter ("OTC") transactions or in non-U.S. securities, in certain circumstances, the Clients may be subject to credit risk with regard to parties with whom they trade and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. Recent collapses of large derivative dealers illustrate the risks of such trading.

The Clients' assets may not always be segregated, and there may be practical or time problems associated with enforcing the Client's rights to its assets in the case of an insolvency of any such party. Furthermore, to the extent a Client enters into OTC agreements, such as swaps, the Client's counterparties generally hold the Client's assets on a non-segregated basis and the Client will be exposed to credit risk with regard to such counterparties.

In some jurisdictions, the Client and Starwood may only be unsecured creditors of their counterparties in the event of bankruptcy or administration of such counterparties. Recent apparently significant losses incurred by many hedge funds in relation to the bankruptcy and/or administration of Lehman Brothers Holdings and its affiliates illustrate the risks incurred in both derivatives trading and custody/brokerage arrangements. Many Lehman Brothers customers have had their accounts frozen, and the inability to access these funds or positions has led to losses as well as extraordinary actions by such hedge funds, such as postponing redemptions on net asset value or declaring sidepockets for such assets.

**Turnover.** While Starwood may engage in high-volume trading on behalf of its Clients, it does not expect to do so. High-volume trading can have a negative effect on performance as a result of, for example, transaction costs such as brokerage commissions and tax inefficiencies.

**Short Sales.** Certain Clients may sell securities short. A Client may engage in short-selling by selling a security that such Client does not own, or selling a security that it owns but which it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the seller must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The seller must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period. The seller may have to pay a premium to borrow the security. This obligation normally must be collateralized by a deposit of cash or marketable securities with the lender unless the seller then owns or has the right to obtain, without payment, securities identical to those sold short. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short

position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Clients. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred. Furthermore, the Clients may prematurely be forced to close out a short position if a counterparty from which the Clients borrowed securities demands the securities' return, resulting in a loss on what might otherwise have been a profitable position and potentially resulting in unhedged exposure to a long, unmatched trade.

During the severe market disruptions following the bankruptcy of Lehman Brothers Inc. in September 2008, the SEC and other securities regulators in a number of countries imposed bans on the short-selling of financial sector securities. These limitations typically were imposed on an "emergency" basis, making it impossible for numerous market participants to either initiate new net short strategies in securities maintained on the restricted list or to continue to implement their strategies.

***Securities Lending.*** The Clients may borrow and lend securities on an ongoing basis in the regular course of their investing. In doing so, the Clients may lend securities to, or borrow securities from, other accounts managed by Starwood as well as to third parties. This transaction would (i) generate income for the Clients and (ii) give the Clients access to "hard-to-borrow" securities held by other accounts managed by Starwood that could not be obtained from third parties. These transactions involve potentially material conflicts of interest.

Third parties that will borrow securities from the Clients may not be able to return these securities on demand, possibly causing the Clients to default on their obligations to other parties, and may also default on the payment obligations owed to the Clients in connection with such securities loans, potentially resulting in substantial losses to the Clients.

***Reliance on Corporate Management and Financial Reporting.*** The investment strategies implemented by Starwood may rely on the financial information made available by issuers in which Starwood's Clients invest and such issuers' trustees or managers. Starwood has no ability to independently verify the financial information disseminated by these third parties and is dependent upon the integrity of both the management of these third parties and the financial reporting process in general. Recent events have demonstrated the material losses that investors can incur as a result of corporate mismanagement, fraud and accounting irregularities.

***Currency Hedging.*** While the Funds and Managed Accounts are denominated in U.S. dollars, some of the underlying investments may be denominated in multiple currencies. Accordingly, any hedging of currency exposure that is implemented by the Funds and Managed Accounts will primarily involve hedging back to the U.S. dollar, but in certain circumstances may involve other hedging activities. There is no assurance that the Funds and Managed Accounts will attempt to hedge their overall currency exposure, or, if they do engage in hedging activity, that this activity will be effective.

***Currency Risks.*** The investments that are denominated in a non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level

of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

***Potentially Adverse Effects of “Low-Latency” Trading.*** It is estimated that over 50% of the equity trades executed on U.S. securities exchanges are implemented by “low-latency” computerized strategies trading in massive volume and with high turnover on the basis of technical market factors. Such trading has little, if anything, to do with the qualitative analysis of the prospects for an issuer’s success. Low-latency trading not only eliminates mispricing on which the Fund might otherwise capitalize, but also may be a dominant factor in determining market prices, making it difficult for Starwood to succeed. Clients will not have access to low-latency trading, and those market participants which do may have priority access to a number of trading opportunities.

***Inflation.*** There has been an unusually low rate of inflation in the United States and most other developed economies for some time. At the same time, the central governments have been injecting unprecedented amounts of financial stimulus into these economies — historically a recurring cause of serious inflation. Were significant inflation to occur, the effect on the Clients’ strategy could be materially adverse — while unpredictable, stocks have traditionally been considered a form of “hedge” against inflation, but that is not always the case (particularly in the case of any individual stock as opposed to a stock index) and certain Clients will take short as well as long positions in stocks.

***Interest-Rate Risks.*** The prices of the equities held by the Clients may be sensitive to interest rate fluctuations. In addition, interest rate increases generally will increase the costs of the leverage used by the Clients. The operations of the issuers in which the Clients invest may also be sensitive to interest-rate changes. To the extent such issuers rely on financing for working capital needs, their profitability will be materially impacted by changes in interest rates. Interest rates can be materially influenced by a number of unpredictable events such as intervention in response to changing political as well as macro-economic factors. A number of market participants have expressed concern that the U.S. government has been artificially constraining interest rates to well below-market rates as part of the ongoing financial stimulus following 2008–2009. When such stimulus ends, there could be a dramatic rise in prevailing interest rates.

### ***Certain Instruments Traded***

***Common Stocks.*** The Clients may invest a substantial amount of their capital in common equity. Common stock prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries, investing in common stocks is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments.

***Equity Securities Generally.*** A number of Starwood’s strategies are based on attempting to predict the future price levels of different equity or equity-related securities. Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and terrorist factors, influence the prices of equities. There can be no assurance that Starwood will be able to predict future price levels correctly.

Starwood's directional equity positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses.

*Small to Medium Capitalization Companies.* The Clients may invest a portion of their assets in the stocks of companies with small-to medium-sized market capitalizations. While Starwood believes these investments often provide significant potential for appreciation, these stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of these stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some of these stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

*Derivatives.* The Clients may use derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities and options, both for hedging and/or for speculative purposes. The use of derivative instruments involves a variety of material risks, including the leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly for the Clients to close out positions in order either to realize gains or to limit losses.

*Non-U.S. Securities.* The Clients may trade and invest in real estate securities and real estate-related securities based on real estate located outside of the United States. Investing in these securities involves considerations and possible risks not typically involved in investing in real estate securities and real estate-related securities relating to U.S.-based real estate, including the instability of certain non-U.S. governments, the possibility of expropriation, nationalization, limitations on the use or removal of funds or other assets and changes in economic or monetary policy. The application of non-U.S. tax laws (*e.g.*, the imposition of withholding taxes on dividend or interest payments, income taxes and excise taxes) or confiscatory taxation may also affect investment in non-U.S. securities. The Clients may incur higher expenses from investment in non-U.S. securities than from investment in U.S. securities because of the costs that must be incurred in connection with conversions between various currencies and because non-U.S. brokerage commissions may be higher than commissions in the United States. Non-U.S. securities markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in non-U.S. countries could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

*Emerging Market Investing.* The Clients may invest a portion of their assets in equity securities and related instruments in emerging markets. In addition, Starwood, on behalf of its Clients, may utilize derivatives in emerging markets to gain synthetic exposure to equity securities. The value of emerging market instruments may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Clients, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of

withholding taxes on interest payments. The economies of many of the emerging market countries are still in the early stages of modern development and are subject to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions having sudden and widespread effects. Also, economies of many emerging market countries have a high dependence on a small group of markets or even a single market. Emerging market countries tend to have periods of high inflation and high interest rates as well as substantial volatility in interest rates. The value of emerging market debt can be expected to be extremely sensitive to changes in interest rates worldwide and, in particular, in the country of the relevant issuer. Emerging market debt issuers and their obligations are not generally rated by any credit rating agency, and a significant proportion of such issuers and obligations would likely fall in the lowest rating category if they were rated.

ETFs. The Clients may also take long and short positions in ETFs in attempting to minimize or adjust the exposure of their investment portfolio. ETFs are baskets of equity securities formed to replicate an index — *e.g.*, SPDRS replicate the S&P 500. There is typically some tracking error between an ETF and the index which the ETF attempts to replicate, and ETFs can be subject to periods of illiquidity. Clients may also use ETFs to trade in the interest rate and other markets within the context of the Client’s focus on long and short equity investments.

#### **ITEM 9: DISCIPLINARY INFORMATION**

Neither Starwood nor any of its affiliates have been the subject of any legal or disciplinary events related to their investment advisory business.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Starwood is an affiliate of Starwood Capital Group Management, L.L.C. (“SCGM”), which is a privately held investment management firm that specializes in real estate-related investments on behalf of select private and institutional investors. Starwood has access to SCGM’s real estate professionals worldwide, which provides insights into global real estate markets. However, certain conflicts of interest may arise as a result of Starwood’s affiliation with SCGM. Starwood will endeavor to resolve any such conflicts equitably and in accordance with applicable law.

Starwood has established a wholly owned subsidiary, SRE Securities Canada, Inc. (“Starwood Canada”). Pursuant to a services agreement, Starwood Canada provides advisory services to Starwood. Starwood Canada is a registered entity with the Ontario Securities Commission (the “OSC”) and is therefore subject to all of the OSC governing rules of requirements. In addition, any persons acting on behalf of Starwood Canada are subject to the compliance policies and procedures of Starwood and are subject to the supervision and control of Starwood in connection with any investment advisory activities. Starwood Canada is a “participating affiliate” of Starwood as that term is used in SEC and SEC staff guidance.

SCGM has established Starwood Capital, L.L.C., a limited purpose broker-dealer registered with the Securities and Exchange Commission (SEC File No. 8-67788), which is intended to act as a fully dedicated placement agent for the private offer and sale of limited



partnership interests in the real estate and private funds for which SCGM provides advisory services. Starwood Capital, L.L.C. has not in the past acted, nor is it expected in the future to act, as a broker-dealer in any capacity with respect to Starwood. Barry Sternlicht, the 100% indirect owner of Starwood Real Estate Holdings, LLC, is also the 100% owner of Starwood Capital, LLC. The Form BD for Starwood Capital, LLC, which includes SEC-mandated disclosures, including certain disciplinary information, may be accessed at <http://brokercheck.finra.org>.

SCGM has also established STWD, a publicly traded real estate finance company that focuses on originating and investing in commercial mortgage loans and other commercial real estate-related debt investments.

*See also “Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.*

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

### **Code of Ethics**

Starwood has adopted a Code of Ethics pursuant to SEC rule 204A-1. The Code of Ethics includes Starwood’s policies as they relate to personal investment and trading by Starwood management and employees (including Starwood Canada and its management and employees), and includes a requirement that securities holdings be reported and approval procedures for certain transactions. The Code of Ethics describes material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading.

Starwood’s Code of Ethics requires, among other things, that Starwood personnel conduct themselves with honesty and integrity, bearing in mind that their conduct reflects on the Starwood’s reputation, refrain from any activity that places or appears to place their interests ahead of the interests of Starwood’s Clients, observe ethical standards of honesty and integrity and comply with the federal securities laws pertaining to their conduct and Starwood’s business.

The following are basic standards of conduct that Starwood personnel are expected to meet:

- Starwood personnel must act with honesty and integrity, and treat Clients in a fair and equitable manner.
- Starwood personnel must keep any information obtained in the course of activities for Starwood, which is not otherwise generally available to the public, strictly confidential. Starwood personnel may not use, for their personal gain, any information obtained from their position with Starwood.
- Starwood personnel must not (i) misuse material, non-public information; (ii) employ any device, scheme or artifice to defraud current or potential Clients; (iii) make any untrue statement of a material fact to a current or potential Client or omit to state to such Client a

material fact necessary in order to make the statements made in light of the circumstances under which they are made, not misleading; (iv) engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon current or potential Clients; or (v) engage in any manipulative practice with respect to Clients or potential Clients.

- Starwood personnel must not knowingly sell for their own account any investment asset (including but not limited to an interest in a REIT or real estate-related asset) to a Client or knowingly purchase or otherwise acquire any investment asset (including but not limited to an interest in a REIT or real estate-related asset) from a Client without first obtaining the written approval of Starwood and the informed, written consent of the Client.
- Starwood personnel must use best efforts to avoid activities, relationships and interests that create an appearance of impropriety.
- Starwood personnel must use best efforts to avoid engaging in any form of conduct that creates an actual conflict of interest, or creates the appearance of a conflict of interest, with a Client.
- Starwood personnel and their immediate family members must not obtain a control interest or other control participation in a company with which Starwood or an affiliate does business, unless otherwise approved in advance by Starwood.
- Starwood personnel must not acquire or dispose of any investment assets, including any interest in, or otherwise engage in any transaction involving, securities that may be traded for Clients.

Starwood's Code of Ethics also requires its personnel to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide Starwood with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

All principals and employees of Starwood must acknowledge an understanding of and agree to comply with the Code of Ethics initially upon employment and must certify on an annual basis that they have read and understand the Code of Ethics and have complied with it.

Starwood, SCGM and their respective affiliates (the "Starwood Parties") may recommend Starwood's services to their Clients, and it is possible that a portion of investors in the Funds will also be clients of another Starwood Party. In addition, Starwood, another Starwood Party, or certain employees of Starwood may invest in certain securities that are considered for investment by a Starwood Client, including any Fund or Managed Account.

Except for Mr. Barry Sternlicht (as disclosed below), none of Starwood's principals and employees may trade and invest for their own accounts in the same securities as those in which Starwood invests on behalf of its Clients. Trades for Starwood, its principals or employees may

be made at or near the time that trades are placed for its Clients. As a result of a neutral allocation system, testing a new trading system, trading their proprietary accounts more aggressively, or any other actions that would not constitute a violation of fiduciary duties, Starwood, its principals and employees may take positions in their proprietary accounts which are opposite or ahead of the positions taken for its Clients. The records of this trading will not be made available to its Clients (or investors in such Clients).

Starwood's Code of Ethics is available to investors and potential investors upon request.

### **Conflicts of Interest**

In addition to the conflicts relating to Starwood's receipt of performance-based compensation, which are discussed in Item 6 and Item 10 above and conflicts relating to choosing broker-dealers to effect transactions for the Clients as described in Item 12 below, investors in the Funds and Managed Accounts are subject to additional conflicts of interest. Some of these conflicts are summarized herein, but this summary does not attempt to describe all of the conflicts of interest associated with an investment in the Funds or Managed Accounts. The confidential offering memorandum for each Fund contains a more complete description of what Starwood believes to be the most significant conflicts of interest associated with an investment in the Funds. Fund investors should carefully consider the conflicts of interest described herein and, as applicable, in the confidential offering memoranda for the Funds before deciding to invest in the Funds. Starwood will consider any investor to have consented to these conflicts as a result of becoming a Client.

***Mr. Sternlicht's Personal Trading.*** Mr. Sternlicht actively trades in securities for his personal account and, in his individual capacity, may also invest directly or indirectly in the same securities as a Client. Mr. Sternlicht and his respective affiliates and clients may purchase or sell the same securities as a Client either before, at the same time as, or after such Client and may, in certain circumstances, take positions opposite to those taken by a Client. Further, Mr. Sternlicht and the Clients may buy or sell a particular security at approximately the same time. In no event will Mr. Sternlicht, in trading on behalf of his affiliates, clients or himself (the "Sternlicht Parties") have knowledge of the Clients' positions. Consequently, Starwood does not restrict or limit Mr. Sternlicht's personal trading in securities that have recently been bought or sold or are currently being considered for purchase or sale for a Client. However, Starwood periodically reviews the trading records of Mr. Sternlicht and its Clients to seek to confirm that the market impact of trading by the Sternlicht Parties for their own accounts does not materially disadvantage the Clients and that Mr. Sternlicht and his affiliates, including Starwood, do not receive material benefits as a result of buying or selling the same securities which are bought or sold by the Clients. Were Starwood to conclude that trading by the Sternlicht Parties had a material impact on, or materially benefited from, the trading of a Client, Starwood would discuss with Mr. Sternlicht the imposition of a trade pre-approval and/or restricted list policy – despite the Sternlicht Parties having no knowledge of a Client's trading – in order to avoid any appearance of impropriety.

***Other Activities.*** Starwood may engage in a wide variety of business transactions with parties that provide services to its Clients as well as parties that trade in the same markets as Clients. The business dealings between the Starwood Parties and the Clients will be on what

Starwood believes to be an arm's-length basis, but Starwood will not necessarily give third parties an opportunity to provide such services on a competitive basis.

Although Starwood devotes a significant amount of time to its Clients in order to carry out its responsibilities, Starwood is required to devote only such time and attention to the business and affairs of each Client as it determines to be necessary or advisable. Starwood currently manages multiple Clients and may manage additional investment funds and/or managed accounts in the future. These entities compete for the time of Starwood. No Client is entitled to any of the profits from these other activities.

***Other Clients.*** By reason of the other business activities of one or more of the Starwood Parties, Starwood may not be able, or may determine not, to initiate a transaction for a Client that Starwood would otherwise have initiated for such Client absent such business activities of one or more Starwood Parties.

Clients trade in the same markets and implement similar strategies, but may have different investment restrictions (including different levels of leverage).

Starwood uses reasonable efforts to allocate or rotate investment opportunities among different Clients in a manner that Starwood deems equitable over time (giving due consideration to the various investment strategies and objectives, existing portfolio, and investment restrictions and parameters (if any) of such Clients and/or other differences which Starwood perceives among the various Clients). Starwood may have to allocate limited investment opportunities among Clients or itself and may have financial and other incentives to favor certain accounts (including its own) over others.

With respect to the "long only" Fund, such Fund may receive differing allocations of long positions as compared to the long positions allocated to other Funds implementing a "long/short" strategy. The reasons for the differing allocations include, but are not limited to, capital available for investment; position sizing differences; managing different gross long exposure levels; not implementing short positions or other investment strategies relying on short sales such as "pair trading"; differences in hedging techniques because a Fund will not sell securities short; and differing allocations to manage exposure due to lack of short positions used for hedging purposes. Managing different portfolios raises conflicts of interest with respect to the allocation of expenses, resources and trading opportunities which Starwood, to the extent practicable, seeks to equitably resolve. Starwood may also give advice or take action with respect to other clients that differs from the advice given with respect to the "long only" Fund.

Starwood may aggregate orders for Clients, notwithstanding that the effect of such aggregation may operate to the disadvantage of one Client and to the advantage of another Client.

***Other Trading; Confidential Information.*** Starwood may cause certain Clients to purchase or sell different securities from those purchased or sold by other Clients, as well as to purchase or sell the same securities that a particular Client is purchasing or selling at or about the same time. Conversely, Starwood may cause a Client to purchase securities at or about the same time that another Client is selling such securities and vice versa. In each case, Starwood will in

good faith attempt not only to allocate market opportunities equitably among its different Clients — having in mind the different strategies followed by these different Clients as well as the need not to prefer any Client account over another.

A Client may from time to time purchase securities from, or sell securities to, other Starwood Clients, in situations where Starwood believes that both parties are benefited by the transaction and the securities involved have a readily determinable market value. In no event will Starwood or any affiliate receive any form of compensation for effecting any such transactions (Starwood receiving only its standard advisory compensation from the Clients).

The Starwood Parties may acquire material non-public and/or confidential information that by law, internal policies or otherwise may restrict Starwood from purchasing or selling securities for themselves or Clients or otherwise using or receiving such information for the benefit of the Starwood Parties or their Clients. In order to maintain flexibility to invest in securities without violating securities laws that restrict trading while in possession of material non-public information, Starwood may establish information walls restricting its access to material non-public information that might otherwise be available to it through its relationships with other Starwood Parties.

***Transactions between the Funds and/or Managed Accounts and Starwood.*** To the extent consistent with and not in violation of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), Starwood may effect purchase and sale transactions between any Client with another Client (“Cross Trades”) when Starwood, exercising its judgment in good faith, determines that a Cross Trade is mutually beneficial to the Clients and is fair and equitable. Starwood will effect a Cross Trade at or with reference to the market price of the securities involved, and may effect such Cross Trade via a broker-dealer or other third party market participant. In effecting a Cross Trade, Starwood will not intentionally favor one party to the transaction over the other, notwithstanding that in hindsight a Cross Trade may appear to have favored one party to the trade over the other. Starwood will not receive commissions, or otherwise profit, from Cross Trades. Cross Trades will be effected only to the extent permitted by applicable law. In any Cross Trade, Starwood will have a potentially conflicting division of loyalties and responsibilities regarding both Clients that are parties to a particular Cross Trade.

Starwood may, when permitted, enter into “principal transactions” (including swaps) with any Client in which Starwood acts as principal for its own account with respect to the sale of a security to or purchase of a security from such Client (any such transaction, a “Principal Trade”). Principal Trades will be completed in compliance with applicable law. In analyzing Principal Trades, Starwood will have a conflict between acting in the best interests of the relevant Client and assisting itself or its affiliate by selling or purchasing a particular security on account of the potential conflicts of interest involved. Starwood as a matter of policy disfavors such trades and would only seek to enter into such a trade if it believed that such trade was in the best interest of the affected parties.

## **Trade Errors**

Starwood may from time to time make trade errors. Trade errors are not errors in judgment, strategy, market analysis, economic outlook, etc., but rather errors in implementing

specific trades which Starwood has determined (rightly or wrongly) to make. Examples of trade errors would be: buying 10,000 shares of an issue rather than the 1,000 that was intended; or taking a long rather than the intended short position in a particular issue. Trade errors can result from clerical mistakes, miscommunications between Starwood's personnel and other reasons. Importantly, however, trade errors are not the function of poor strategies, valuation models, economic expectations, undue speculation, unauthorized trades or the like, but rather of the physical implementation of specific trades on which Starwood had decided.

Starwood determines whether to have the costs arising from trade errors borne by the Client or Starwood by applying the pertinent standard of liability for Starwood in its management of the Clients' capital — *i.e.*, the same standard of liability which would apply to any other action or omission by Starwood in the course of such management. Starwood will itself determine in good faith whether or not a given trade error is required to be reimbursed under the general liability and exculpation standards applicable to the Client. This approach does not contemplate that Starwood would determine whether any individual trade error resulted from Starwood's gross negligence or intentional misconduct *per se*; rather, Starwood would likely consider itself to have been grossly negligent if Starwood determines that its supervisory procedures were inadequate to prevent such errors from recurring with any frequency.

Starwood has a conflict of interest in determining whether a trade error should be for the account of a Client or Starwood and will attempt to resolve such conflict by an objective determination of the status of such trade error under the applicable liability standard.

Trade error costs can be significant — including market losses resulting from the position incorrectly acquired as well as the additional brokerage costs of closing out or reversing the error. The opportunity cost (lost profits) of not having made the trade intended to be made is not considered a trade error cost. Any gains recognized on trade errors will be for the benefit of the Clients; none shall be retained by Starwood.

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection of Broker-Dealers**

In selecting broker-dealers and negotiating commission rates, Starwood may also take into account the financial stability and reputation of the broker, and the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by such broker (as described more fully below), even though a Client may or may not in any particular instance be the direct or indirect beneficiary of the research or other services provided.

In selecting brokers or dealers to execute transactions for Clients, Starwood will not solicit competitive bids and has no obligation to seek the lowest available commission cost. Starwood will receive certain "soft dollar" research and other services from Clients' brokers and therefore, Clients may pay commissions higher than those charged by brokers for "execution only" transaction commissions. However, Starwood will monitor any such services in an attempt to ensure that they qualify as "bona fide research" within the meaning of Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended ("Exchange Act").

Services which may be provided to Starwood by the brokers and other counterparties may include, without limitation, in addition to research, services such as special execution capabilities, clearance, settlement, net pricing, online pricing, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, online access to computerized data regarding Clients' accounts, performance measurement data, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, financial strength and stability, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short sales, referral of prospective investors, custody, recordkeeping and similar services, as well as paying for a portion of a Client's or Starwood's other research costs and expenses, such as newswire and data processing charges, quotation services, periodical subscription fees and other reasonable expenses incurred by Starwood in performing services on behalf of its Clients.

The "soft dollar" services received from brokers and other counterparties as a result of a Client's transactions may be used by Starwood in servicing other Clients.

The foregoing list of "soft dollar" services which may be received by Starwood is extensive because of the diverse range of the possible services which the brokers provide. However, Starwood will attempt to limit all "soft dollar" services received to within the safe harbor for "bona fide research" services provided by Section 28(e) of the Exchange Act.

When Starwood uses brokerage commissions to obtain research or other products or services, Starwood receives a benefit because Starwood does not have to produce and/or pay for the research, products or services. Therefore, Starwood may have an incentive to select or recommend a broker based on its interest in receiving research or other products or services, rather than on a Client's interest in receiving the most favorable execution. Starwood uses soft dollar services to benefit all of its Clients' accounts and seeks to allocate soft dollar benefits proportionately to the soft dollar credits the accounts generate.

In the last fiscal year, Starwood's Chief Executive Officer, Chief Compliance Officer and Senior Trader met periodically on an informal basis to discuss and approve Starwood's approach to allocations of Client transactions to broker-dealers in return for soft dollar benefits. The factors considered included some or all of the items described above in the first paragraph of this Item 12 as well as commission pricing and the amount of soft dollar credits offered. In addition, Starwood's Chief Compliance Officer, on at least a quarterly basis, reviewed all soft dollar relationships by reviewing reports of all soft dollar goods and services and soft dollar credits provided to Starwood, the commissions paid to brokers and the estimated value of such goods and services.

Starwood does not consider, in selecting or recommending broker-dealers, whether Starwood or a related person receives Client referrals from a broker-dealer or third party.

Starwood personnel occasionally speak at conferences and programs sponsored by prime brokers for investors interested in hedge funds. These conferences and programs can provide Starwood with an introduction to potential investors. Starwood generally does not compensate prime brokers for providing access to "capital introduction" opportunities. However, when

deciding which prime brokers to use among prime brokers that provide the Clients with the same approximate quality of services and pricing, Starwood may take into account access to capital introduction opportunities and other services that such prime brokers offer.

### **Directed Brokerage**

Starwood does not permit the investors in the Funds to direct brokerage. However, Clients in Managed Accounts may request Starwood to utilize specific broker-dealers, and such requests are merely suggestions and not mandates. Starwood retains ultimate discretion with respect to brokerage.

### **Aggregation of Purchase or Sale Orders**

Starwood may aggregate sales and purchase orders of securities placed for one Client with similar orders being made simultaneously for other Clients, including affiliated Clients, where Starwood believes this to be appropriate, in the best interest of the Client accounts, and consistent with applicable legal requirements. It is Starwood's policy to make all allocations of aggregated trades among participating accounts on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or Client over another over a period of time. In addition, in making its investment decisions for each account, Starwood will use its best judgment on behalf of each Client taking into consideration the investment guidelines for the account and other factors.

## **ITEM 13: REVIEW OF ACCOUNTS**

All accounts managed by Starwood are reviewed and subjected to risk analysis (*e.g.*, exposure by sectors, sub-sectors, liquidity, etc.) on a daily basis by Starwood's Chief Executive Officer and Chief Compliance Officer in consultation with one or more traders. Such analysis includes review of the day's trading in terms of actual trades, netted trades and daily, monthly and year-to-date profit and loss.

Starwood furnishes to each investor in the Funds a summary written report of the relevant Fund's estimated performance on a monthly or quarterly basis, as well as an estimate of the increase or decrease in the balance of such investor's account during such time period, and such other information as Starwood may deem appropriate. As soon as practicable after the end of each fiscal year, the Funds will furnish to each investor a report as of the end of such fiscal year, and will include the following information; (i) the audited balance sheet and income statement of the Fund; (ii) the investor's closing balance; (iii) the percentage change in the net asset value of the Fund during the latest fiscal year; and (iv) a copy of Schedule K-1 where applicable.

The Funds aim to deliver annual audited financial statements and applicable tax information within 90 days following the end of their fiscal years. However, because the positions and strategy of the Funds are complex and preparing financial statements and tax returns may depend upon information from third parties, the Funds may not be able to deliver to their investors financial statements and Schedule K-1 to the Funds' federal income tax return, where applicable, before the original time that investors are required to file their federal, state and local income tax returns without extensions. Therefore, investors may need to obtain one or more extensions of time to file their tax returns.



Reports with respect to Managed Accounts are individually negotiated with each Client.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

As discussed above in “*Item 12: Brokerage Practices*,” certain broker-dealers or other counterparties may provide Starwood certain “soft dollar” research or other services as a result of Starwood executing transactions with such persons. See “*Item 12: Brokerage Practices*.”

#### **ITEM 15: CUSTODY**

Starwood is presently deemed to have custody of the Funds’ assets because Starwood acts as manager or as the investment adviser to the Funds with the authority to dispose of funds and securities in their accounts. Fund assets are generally held in custody by unaffiliated broker/dealers or banks. Investors in the Funds do not receive statements from such custodians. Instead, the Funds 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 90 days of the respective Fund’s fiscal year end.

Starwood does not have custody with respect to its Managed Accounts.

#### **ITEM 16: INVESTMENT DISCRETION**

Starwood has full discretionary authority to conduct the trading activities and manage the assets of the Funds and Managed Accounts within the parameters of their investment objectives and strategies, pursuant to the Funds’ confidential offering memoranda and the managed account agreements (some of which impose restrictions on the investment authority of Starwood).

#### **ITEM 17: VOTING CLIENT SECURITIES**

Starwood has the authority to vote the securities held by the Funds by virtue of the constituent documents or investment management agreements with such Funds. Neither the Funds nor any investor in the Funds may direct Starwood’s vote with respect to any particular solicitation. Clients holding Managed Accounts may delegate to Starwood the authority to vote such proxies pursuant to the managed account agreements, but in such cases, Starwood will generally not accept instructions from such persons regarding how to vote proxies.

Starwood will generally not vote or evaluate proxies except as it may be specifically solicited or in other extraordinary situations when, in any event, Starwood believes the matter subject to vote may be material to the Client’s account and Starwood’s vote may affect the outcome of the vote. If and when Starwood does vote proxies, it will vote them prudently and solely in the economic interests of Clients. Starwood attempts to consider all aspects of its vote that would affect the value of the investment and where it votes proxies, will do so in the manner that it believes will be consistent with efforts to maximize the value of its Clients’ positions.

Starwood promptly reviews proxy materials to evaluate the issues presented. Regularly recurring matters are usually voted as recommended by the issuer’s board of directors or “management,” but there are many circumstances that might cause Starwood to vote against such

proposals. These would include, among others, excessive compensation, unusual management stock options, preferential voting, poison pills, etc. Starwood decides these issues on a case-by-case basis.

Starwood may, on occasion, determine to abstain from voting a proxy or a specific proxy item when it concludes that the potential benefit of voting is outweighed by the cost, or when it is not in the Starwood Client's best interest to vote.

Starwood's complete proxy voting policy and procedures is available upon request. In addition, Starwood maintains a record of all of the proxy votes cast on behalf of its Clients; such records may be reviewed at Starwood's office.

In the limited circumstances in which Starwood does vote proxies, Starwood will follow procedures designed to identify and address material conflicts that may arise between Starwood's interests and those of its Clients before voting proxies on behalf of Clients. Specifically, Starwood will monitor the potential for conflicts of interest on the part of Starwood with respect to voting proxies on behalf of Client accounts as a result of personal relationships, significant Client relationships, or special circumstances. If Starwood determines that a conflict of interest exists with respect to a particular issuer, Starwood's Compliance Officer will determine whether the conflict of interest is material. If it is determined that the conflict of interest is not material, Starwood may vote proxies notwithstanding the existence of the conflict. If it is determined that the conflict of interest is material, Starwood will resolve the conflict in one of several possible ways, such by engaging a third party to recommend a vote with respect to the proxy.

The above policy with regard to proxy voting will not apply to accounts subject to ERISA. On ERISA accounts, Starwood will engage an outside proxy voting service to evaluate and vote proxies, although Starwood reserves the right to override such a service in the same extraordinary situations noted above, in which case Starwood will vote proxies in the same manner described above.

Investment adviser Clients of Starwood, or investors in a Fund, may request a copy of Starwood's Proxy Voting Policy, as well as relevant proxy voting records, by making a written request to Steven N. Gottschalk, Starwood Real Estate Securities, L.L.C., 591 West Putnam Avenue, Greenwich, CT 06830; telephone (203) 422-7739.

#### **ITEM 18: FINANCIAL INFORMATION**

Not applicable.