

NSAM US LLC

Form ADV, Part 2A

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This brochure ("Brochure") provides information about the qualifications and business practices of NSAM US LLC ("NSAM US"), NSAM J-NRF Ltd, NSAM J-NRE Ltd, NSAM J-NSI Ltd, NSAM J-NSHC Ltd, NSAM J-NSII Ltd, NSAM J-NS/RXR Ltd, NSAM Luxembourg S.à r.l., NSAM Bermuda, Ltd., NorthStar Asset Management UK, Ltd. and Healthcare Opportunity JV, LP (collectively, the "NSAM Advisers" or "NSAM"). 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 NSAM 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

NSAM US's most recent annual updating amendment to Part 2A on Form ADV was filed on March 31, 2015. This Brochure was amended to add a relying adviser and to reflect certain changes to NSAM's advisory business arrangements. This Item 2 discusses only material changes since the last annual update.

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 Managed Companies or by another authorized party.

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 US and other NSAM Registrants

NSAM US 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 US and its affiliates, who provide asset management and other services to the Managed Companies, consisting of NorthStar Realty, NorthStar Realty Europe Corp. (“NorthStar Europe”), the Non-Traded Managed Companies (as defined below) and other companies, funds and accounts that may be sponsored by NSAM Parent or otherwise advised by NSAM in the future, both in the United States and internationally.

Certain affiliates of NSAM US (the “Relying Advisers”) provide investment advisory and related services as part of NSAM’s advisory business. These include, in particular, affiliated companies established in Bermuda, Jersey, Luxembourg, the United Kingdom and the United States, which may also engage NSAM affiliates and third parties for the provision of services. NSAM US 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 “NSAM Advisers,” or “NSAM,” as the context requires. Each NSAM Adviser is a separate and distinct company that may have differing investment capabilities and functions, but the NSAM Advisers work collaboratively to provide advice and services to the Managed Companies. As of August 4, 2015, the NSAM Advisers have regulatory assets under management of approximately \$24,745,240,000. Regulatory assets under management are calculated and presented in this Brochure according to the requirements of the Advisers Act and may differ from the calculation and presentation of assets for purposes of other public filings made by NSAM Parent or the Managed Companies. The NSAM Advisers include NSAM US LLC (Delaware), NSAM J-NRF Ltd (Jersey), NSAM J-NSI Ltd (Jersey), NSAM J-NSHC Ltd (Jersey), NSAM J-NSII Ltd (Jersey), NSAM J-NS/RXR Ltd (Jersey), NSAM J-NRE Ltd (Jersey), NSAM Luxembourg S.à r.l. (Luxembourg), NSAM Bermuda, Ltd. (Bermuda), NorthStar Asset Management UK, Ltd. (United Kingdom) and Healthcare Opportunity JV, LP (Delaware).

NSAM Parent also directly and indirectly owns a number of operating entities (in addition to NSAM US 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

NSAM’s primary business objective is to provide asset management and other services to the Managed Companies, both in the United States and internationally. NSAM’s Managed Companies include public traded and non-traded companies sponsored by NSAM Parent. Each Managed Company has elected to qualify, or intends to elect to qualify, as a real estate investment trust (“REIT”) 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 healthcare, hotel, manufactured housing, net lease, multifamily, and multi-tenant properties.

Publicly-Traded Managed Companies

NSAM currently manages two publicly-traded REITs listed on the New York Stock Exchange: NorthStar Realty (ticker: NRF) and NorthStar Europe (ticker: NRE).

NorthStar Realty is a diversified commercial real estate 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. In connection with the spin-off, NSAM J-NRF Ltd, one of the NSAM Advisers, entered into a management contract with NorthStar Realty with an initial term of 20 years, which provides stable fees to NSAM while continuing to grow NorthStar Realty's existing business through the NSAM management team's investment strategy.

NorthStar Europe is a commercial real estate company that was created as a result of a spin-off of NorthStar Realty's European real estate business (excluding NorthStar Realty's European healthcare assets) in October 2015, with approximately \$2.6 billion of investments, at cost, at the time of the spin-off. NorthStar Europe has the ability to invest in a broad spectrum of European commercial real estate and intends to make equity investments, directly or indirectly through joint ventures, in a diversified portfolio of European commercial real estate. NorthStar Europe is managed by NSAM J-NRE Ltd, one of the NSAM Advisers, pursuant to a management agreement with terms substantially consistent with the terms of the management agreement between NorthStar Realty and NSAM J-NRF Ltd.

Non-Traded Managed Companies and Other Clients

NSAM currently manages four public non-traded REITs: NorthStar Real Estate Income Trust, Inc. ("NS Income"), NorthStar Healthcare Income, Inc. ("NS Healthcare"), NorthStar Real Estate Income II, Inc. ("NS Income II") and NorthStar/RXR New York Metro Income, Inc. ("NS/RXR Income") (together, the "Non-Traded Managed Companies", and each a "Non-Traded Managed Company"). NS Income is a public, non-traded REIT, currently closed to new investments, that originates, invests in and manages a portfolio of commercial real estate debt, select equity and securities investments. 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. NS Income II is a public, non-traded REIT that originates and acquires a diversified portfolio of commercial real estate debt, select equity and securities investments. NS/RXR Income is structured as a public, non-traded REIT that is co-sponsored by NSAM Parent and RXR Realty LLC ("RXR Realty") and is formed to acquire a high-quality commercial real estate portfolio concentrated in the New York metropolitan area and, in particular, New York City, with a focus on office and mixed-use properties and a lesser emphasis on multifamily properties. NSAM also may serve as manager to, or provide related services for, other public traded and non-traded REITs, business development companies, closed-end or open-end registered investment companies, collective investment vehicles and/or separate accounts in the future.

Strategic Relationships of NSAM and the Managed Companies

NSAM or its affiliates may receive certain fees and/or distributions of operating cash flow in connection with strategic relationships, including those described below. The fees and/or distributions of operating cash flow received as a result of the strategic relationships are in addition to the advisory fees paid directly to the NSAM Advisers from the Managed Companies.

In December 2013, NorthStar Realty entered into a strategic transaction with RXR Realty, a leading commercial real estate owner, developer and investment management company focused on high-quality real estate investments in the New York Tri-State area. NorthStar Realty's equity investment in RXR Realty is structured so that NSAM is entitled to certain fees in connection with the investment. In addition, NSAM Parent and RXR Realty co-sponsor NS/RXR Income, which is a non-traded REIT that is managed by an NSAM Adviser and sub-advised by RXR Realty. NSAM is entitled to certain fees associated with managing such entity.

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 oversees and seeks to grow the healthcare real estate portfolios of NorthStar Realty and NS Healthcare. In addition, the healthcare strategic partnership may raise institutional capital for funds expected to be managed by NSAM.

In December 2014, NorthStar Realty acquired Griffin-American Healthcare REIT II, Inc. ("GAHR II"), a healthcare-focused non-traded REIT, in a cash and stock transaction valued at \$4 billion. Concurrently therewith, NSAM Parent, through a wholly-owned subsidiary, acquired a minority equity interest in the business of American Healthcare Investors LLC ("AHI"), a healthcare-focused real estate investment management firm and former adviser to GAHR II. NSAM Parent's investment in AHI is structured as a joint venture between NSAM Parent, a trust owned by Mr. Flaherty and the principals of AHI. The joint venture provides certain asset management, property management and/or other services to the NSAM Advisers to assist NSAM in managing certain healthcare assets owned by NorthStar Realty, NS Healthcare and future Managed Companies. As a minority investor in AHI, NSAM Parent is entitled to receive certain distributions of operating cash flow and certain promote fees from AHI, including as a result of any fees paid to AHI by Managed Companies for management and related services. (See ***Item 5: Fees and Compensation—Fees Related to Strategic Relationships of NSAM Parent.***)

In January 2015, NSAM Parent, through a wholly-owned subsidiary, acquired a minority equity interest in the business of Island Hospitality Group Inc. ("Island"), a hospitality-focused real estate management firm. NSAM Parent's investment in Island is structured as a joint venture and the principals of Island continue to run the day-to-day operations of Island's business, including continuing as the operator of a majority of the hotel portfolio owned by NSAM's Managed Companies. As a minority investor in Island, NSAM Parent is entitled to receive certain distributions of operating cash flow from Island in accordance with the allocations set forth in the joint venture agreement, including as a result of fees paid to Island for operating certain hotels owned by Managed Companies. (See ***Item 5: Fees and Compensation—Fees Related to Strategic Relationships of NSAM Parent.***)

A Note on the NSAM 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 are included in the Managed Company's public filings or may be provided to current and eligible prospective investors only by NSAM 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 NSAM for the purpose of compliance with NSAM'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.

NSAM's Advisory Services

Subject to limited exceptions, NSAM 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 NSAM 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 executing 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 current focus of NSAM's investment advisory business is on CRE and CRE debt, but is expected to expand to business development companies as well as other platforms.

Real Estate Investments

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

- **Healthcare**: Diverse portfolio of medical office buildings and other 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, as well as healthcare properties that operate under a REIT Investment Diversification and Empowerment Act ("RIDEA"), which allows for participation in operating income through an independent third-party manager.
- **Hotel**: Extended stay hotels and premium branded select service hotels located primarily in major metropolitan markets with the majority affiliated with top hotel brands.
- **Manufactured Housing**: Communities that lease pad rental sites for placement of factory built homes and includes an inventory of manufactured homes.
- **Net Lease**: Real estate net leased to corporate tenants, primarily comprised of industrial, office, and retail properties.
- **Multifamily**: Predominately properties located in suburban markets that we believe are suited to capture the formation of new households.
- **Multi-tenant Office**: Commercial office buildings with multiple tenants.
- **Real Estate Private Equity Funds**: Real estate private equity funds generally managed by institutional-quality sponsors, diversified by property type and geography.

- **CRE Securities:** NSAM's CRE securities business is predominately comprised of NSAM CDO bonds and NSAM CDO equity of deconsolidated NSAM 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.

NSAM or its Managed Companies also may establish and/or sponsor strategic arrangements and partnerships, directly or on behalf of one or more of the Managed Companies, such as NSAM's long-term strategic healthcare real estate partnership with James F. Flaherty III, NorthStar Realty's strategic transaction with RXR Realty, and NSAM's strategic transactions with AHI and Island.

Real Estate Debt Investments

As part of NSAM's CRE debt investment advisory business, NSAM, together with NorthStar Realty as the case may be, 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 NSAM may syndicate or sell portions of loans to seek to maximize risk-adjusted returns, manage credit exposure and generate liquidity. NSAM, together with NorthStar Realty as the case may be, 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. NSAM 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, NSAM 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 NSAM are primarily driven by NSAM's ability to raise capital for existing and potential Managed Companies. NSAM'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, is equal to the sum of:

- \$86,000,000;
- 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;

- 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 Advisors S.à r.l., a private limited liability company (société responsabilité anonyme) incorporated and existing under the laws of Luxembourg, and Aeriance Holding S.à r.l., a private limited liability company (société responsabilité anonyme), incorporated and existing under the laws of Luxembourg (collectively, "Aerium"); and
- 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 after December 10, 2013 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 NorthStar Realty Finance Limited Partnership, a Delaware limited partnership, NorthStar Realty's operating partnership, after December 10, 2013 (excluding units issued to NorthStar Realty or as equity based compensation); and
 - cumulative cash available for distribution ("CAD") of NorthStar Realty in excess of cumulative distributions paid on common stock of NorthStar Realty or other equity awards of NorthStar Realty beginning the first full calendar quarter after June 30, 2014.

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

- the product of: (a) 15% and (b) NorthStar Realty's CAD before such incentive fee is paid, divided by the weighted average shares outstanding for the calendar quarter, of any amount in excess of \$0.68 per share and up to \$0.78 per share; plus
- the product of: (a) 25% and (b) NorthStar Realty's CAD before such incentive fee is paid, divided by the weighted average shares outstanding for the calendar quarter, of any amount in excess of \$0.78 per share;
- multiplied by the weighted average shares outstanding of NorthStar Realty for the calendar quarter.

With respect to the above incentive fee hurdles, such amounts may be appropriately adjusted to take into account the effect of any stock split, reverse stock split, stock dividend, reclassification, recapitalization or other similar transaction from and after October 31, 2015. With respect to the above additional annual base management fees attributable to NorthStar Realty's equity interests in RXR Realty and Aerium, the payment of each minimum additional base fee shall continue irrespective of whether NorthStar Realty continues to own an interest in RXR Realty or Aerium.

NSAM 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 the Managed Companies' balance sheets and new investments in future healthcare real estate funds raised by the partnership. The partnership also is entitled to the incentive

fees earned by NSAM from managing NS Healthcare and any future healthcare non-traded REITs sponsored by NSAM, including any future non-traded REITs that are co-sponsored or advised by NSAM and/or AHI.

NorthStar Europe

NSAM's advisory contract with NorthStar Realty provides that, if NorthStar Realty spins-off any assets or entities, the spun-off entity shall be managed by NSAM on terms substantially similar to those set forth in the advisory contract between NSAM and NorthStar Realty. The advisory contract further provides that the aggregate base management fee in place immediately after any future spin-off will not be less than the aggregate base management fee in place at NorthStar Realty immediately prior to such spin-off.

In connection with the spin-off of NorthStar Europe by NorthStar Realty in October 2015, NorthStar Europe entered into an advisory contract with NSAM on terms substantially consistent with NSAM's advisory contract with NorthStar Realty. NorthStar Europe's advisory contract with NSAM 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, is equal to the sum of:

- \$14,000,000; and
- an additional annual base management fee equal to 1.5% per annum of the sum of:
 - any NorthStar Europe equity issued in exchange or conversion of exchangeable or stock-settlable 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 NorthStar Realty Europe Limited Partnership, a Delaware limited partnership, NorthStar Europe's operating partnership (excluding units issued to NorthStar Europe or as equity based compensation); and
 - cumulative CAD of NorthStar Europe in excess of cumulative distributions paid on common stock of NorthStar Europe or other equity awards of NorthStar Europe beginning the first full calendar quarter after October 31, 2015.

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

- the product of: (a) 15% and (b) NorthStar Europe's CAD before such incentive fee is paid, divided by the weighted average shares outstanding for the calendar quarter, of any amount in excess of \$0.30 per share and up to \$0.36 per share; plus
- the product of: (a) 25% and (b) NorthStar Europe's CAD before such incentive fee is paid, divided by the weighted average shares outstanding for the calendar quarter, of any amount in excess of \$0.36 per share;
- multiplied by the weighted average shares outstanding of NorthStar Europe for the calendar quarter.

With respect to the above incentive fee hurdles, such amounts may be appropriately adjusted to take into account the effect of any stock split, reverse stock split, stock dividend, reclassification, recapitalization or other similar transaction from and after October 31, 2015.

NorthStar Realty, NorthStar Europe and the other Managed Companies may also engage third-party or affiliated managers in connection with asset management, property management or related services for certain of its owned real estate. In such instances, the Managed Company pays fees to such third party or affiliated managers in addition to the fees paid to NSAM. These types of services also may be provided by strategic partners. (See **Item 4: Advisory Business—Strategic Relationships of NSAM and the Managed Companies** and **Item 5: Fees and Compensation—Fees Related to Strategic Relationships of NSAM Parent.**)

Other Managed Companies

<u>Fees</u>	<u>NS Income</u>	<u>NS Healthcare</u>	<u>NS Income II</u>	<u>NS/RXR Income⁽⁶⁾</u>
Asset-management fees ⁽¹⁾	1.25% of Assets	1.00% of Assets	1.25% 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	1.00% of Investment (2.25% for real estate properties)
Disposition fees ⁽³⁾	1.00% of sales price	1.00% of sales price of debt (2.00% for real estate properties)	1.00% of sales price	1.00% of sales price of debt (2.00% for real estate properties)
Incentive fee ⁽⁴⁾	15% of net cash flows after an 8% return	15% of net cash flows after a 6.75% return ⁽⁵⁾	15% of net cash flows after a 7% return	15% of net cash flows after a 6% 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 (or such Managed Company's proportionate share thereof in the case of an investment made in a joint venture).
- (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.

- (5) The healthcare strategic partnership with Mr. Flaherty will be entitled to the incentive fees earned from managing NS HealthCare, of which NSAM will earn its proportionate interest.
- (6) Fees are paid both to the NSAM Adviser and to an affiliate of RXR Realty as a sub-adviser.

Fees Related to Distribution-Support by NorthStar Realty

Consistent with its historical practice and NorthStar Realty's Governing Documents, NorthStar Realty may support the distributions of certain Non-Traded Managed Companies by purchasing a limited number of Non-Traded Managed Companies' shares. As a shareholder in these Managed Companies, NorthStar Realty pays a limited fee to the NSAM Advisers of such Non-Traded Managed Companies receiving distribution support in addition to the fee paid by NorthStar Realty to NSAM under its advisory contract.

Fees Related to Strategic Relationships of NSAM Parent

NSAM Parent seeks to expand the scope of its asset management business through acquisitions, strategic partners and joint ventures, such as its acquisition of a minority interest in AHL and Island. As an investor in certain operating businesses, NSAM Parent may be entitled to receive distributions of operating cash flows as a result of fees paid to such businesses by Managed Companies for management and related services. Certain Managed Companies have engaged AHL and/or Island for property management and related services and, thus, NorthStar Parent indirectly benefits from such fees.

Timing and Deduction of Fees

All Managed Company fees are generally calculated and payable quarterly in arrears. Managed Company Fees are deducted from Managed Company assets. More complete information about fees is contained in each Managed Company's Governing Documents.

Investment-Related Expenses

Managed Companies generally bear the costs associated with their investments (including costs related to the establishment and maintenance of investment vehicles) and prospective investments (even if NSAM does not proceed with a prospective investment for any reason ("Broken Deal Costs")) and are required to reimburse NSAM 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. For certain Managed Companies, 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.

The Managed Companies also bear Broken Deal Costs, which are third-party acquisition costs for proposed investments that are not completed. NSAM may allocate Broken Deal Costs to the Managed

Company or Companies that would have acquired or originated the investment according to NSAM's allocation policy.

Sales Expenses

Non-Traded Managed Companies are distributed through a broker-dealer and pay the following sales expenses:

- Commissions of up to (a) 7% for Class A Shares and (b) 2% for Class T Shares, of gross offering proceeds to unaffiliated broker-dealers who sell interests in the Non-Traded Managed Companies.
- A fee of up to (a) 3% for Class A Shares and (b) 2.75% for Class T Shares, of gross offering proceeds to NorthStar Securities, LLC ("NorthStar Securities") for acting as a dealer-manager to the unaffiliated selling broker-dealers (See ***Item 10 – Other Financial Industry Activities and Affiliations***).
- With respect to Class T Shares only, an annual distribution fee of up to 1% of the gross offering proceeds to NorthStar Securities, all or a portion of which may be reallocated to participating unaffiliated broker-dealers.
- A reimbursement of any organizational and offering expenses incurred by NSAM.

Aggregated sales expenses are capped at 15% of gross offering proceeds per Managed Company.

Operating Expenses

Managed Companies generally bear their own operating and other expenses (in addition to those listed above) including, but not limited to (i) legal expenses, (ii) internal and external accounting, audit and tax preparation expenses, (iii) insurance, and (iv) operating expenses, and will reimburse NSAM for costs and expenses incurred by NSAM on their behalf.

Generally, each Managed Company reimburses NSAM for a percentage of certain NSAM and NorthStar Realty overhead expenses and employee salaries. NSAM allocates, in good faith, indirect costs to the Managed Companies related to employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, each Managed Company's advisory contract with NSAM. The indirect costs include the Managed Company's allocable share of NSAM's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Managed Company's affairs, based upon the percentage of time devoted by such personnel to the Managed Company's affairs. The indirect costs also include rental and occupancy, technology, office supplies and other general and administrative costs and expenses. NSAM allocates these costs to the Managed Company relative to its other managed companies in good faith. For any operating expenses that cannot be reimbursed because they exceed a particular Managed Company's cap, the Managed Company may reimburse those accrued operating expenses in a subsequent period when operating expenses fall below the applicable cap.

Pursuant to NorthStar Realty's and NorthStar Europe's management agreements with NSAM, each of NorthStar Realty and NorthStar Europe is obligated to reimburse NSAM, in NSAM's discretion, for additional costs and expenses incurred by NSAM for an amount not to exceed the following: (i) 20% of

the combined total of (a) the general and administrative expenses as reported in the consolidated financial statements of each of NorthStar Realty, NorthStar Europe and any new entity spun-off from NorthStar Realty or NorthStar Europe after making certain adjustments described below (the “Managed Company G&A”), and (b) NSAM Parent’s general and administrative expenses as reported in its consolidated financial statements, excluding equity-based compensation expense and adding back any costs or expenses allocated to any other managed company of NSAM; less (ii) the Managed Company G&A (the “Maximum Allocable G&A”); provided, however, that NorthStar Realty and NorthStar Europe will not be required to reimburse NSAM for any portion of the Maximum Allocable G&A for which NSAM receives reimbursement from the other of NorthStar Realty or NorthStar Europe, as applicable, or any company spun-off from NorthStar Realty or NorthStar Europe. Subject to the foregoing limitation and the limitations contained in the applicable management agreements between NSAM and NorthStar Realty, NorthStar Europe or any company spun-off from NorthStar Realty or NorthStar Europe, the amount of the Maximum Allocable G&A paid by NorthStar Realty, NorthStar Europe and any company spun-off from NorthStar Realty or NorthStar Europe will be determined by NSAM in its discretion. In determining the reimbursement described above, the reported general and administrative expenses of each of NorthStar Realty, NorthStar Europe and any company spun-off from NorthStar Realty or NorthStar Europe will be adjusted to exclude (1) equity-based compensation expenses, (2) non-recurring expenses, (3) fees payable to NSAM under the terms of the applicable management agreement entered into by such entity with NSAM and (4) any allocation of expenses from NSAM.

In addition, pursuant to NorthStar Realty’s and NorthStar Europe’s management agreements with NSAM, NorthStar Realty and NorthStar Europe are obligated to pay or reimburse NSAM for up to 50% (in the aggregate) of any long-term bonus or other compensation that NSAM’s compensation committee determines shall be paid and/or settled in the form of equity and/or equity-based compensation to executives, employees, service providers and staff of NSAM during any year. Subject to the foregoing and the limitations set forth in the applicable management agreements, the amount paid by NorthStar Realty and NorthStar Europe will be determined by NSAM in its discretion. The equity compensation for each year may be allocated on an individual-by-individual and award-by-award basis at the discretion of the NSAM compensation committee and, as long as the aggregate amount of the equity compensation for such year does not exceed the limits set forth in the management agreement, the proportion of any particular individual’s equity compensation may be greater or less than 50%. NorthStar Realty and/or NorthStar Europe will also pay directly or reimburse NSAM for an allocable portion of any severance paid pursuant to any employment, consulting or similar service agreements in effect between NSAM and any of its executives, employees or other service providers.

Please see Item 12 for a discussion of NSAM’s allocation policy and 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 NSAM, as there could be an incentive for the adviser to: (i) value assets in a manner that increases NSAM’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, NSAM has an incentive to favor those Managed Companies for which it begins receiving incentive fees at a lower “hurdle” rate because NSAM will benefit more from the improved performance of such Managed Companies. Similarly, NSAM 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 NSAM will receive greater compensation by doing so.

The allocation of NSAM’s operating expenses among the Managed Companies may also create conflicts of interest. NSAM 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 NSAM. This may create incentives for NSAM to allocate investment opportunities among the Managed Companies, based on the adviser’s expenses that the Managed Company will assume.

NSAM seeks to treat all Managed Companies in a fair and equitable manner over time and will act in a manner that it believes to be in the best interests of the Managed Companies. To that end, NSAM 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 NSAM. 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 NSAM. Therefore, investors must consider whether the Managed Company meets their investment objectives and risk tolerance prior to investing in a Managed Company. Currently, Managed Companies are not “investment companies” under the Investment Company Act of 1940, as amended (the “Investment Company Act”), although NSAM expects to manage investment companies in the future.

NSAM may seek 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. NSAM is expected to generally provide 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 Investment Trusts. Certain Managed Companies may elect to be treated as REITs for U.S. federal income tax purposes or include entities treated as REITs in their organizational structure. These Managed Companies include both traded and non-traded publicly-offered REITs.

Private Funds. Private funds are U.S. and non-U.S. pooled investment vehicles that are offered to investors in a private offering exemption or in reliance on Regulation S under the Securities Act of 1933,

as amended. 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 impose qualification requirements and/or set minimum amounts for investment by prospective investors in such company. In certain circumstances these amounts and/or qualification requirements may be waived by NSAM in its sole discretion.

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

Methods of Analysis and Investment Strategies

NSAM 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 equity and debt investments. NSAM’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, NSAM 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.

NSAM uses a rigorous investment and underwriting process that has been developed and utilized by its senior management team leveraging their extensive CRE 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, a Managed Company’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.

NSAM, on behalf of its Managed Companies, 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 NSAM’s real estate investment advisory business, NSAM explores a variety of real estate investments in the United States and internationally for its Managed Companies. NSAM’s investment strategy is currently focused on the following asset categories: (i) healthcare properties, (ii) hotels, (iii) manufactured housing communities, (iv) net lease properties, (v) multifamily properties, (vi) multi-tenant office properties, (vii) other opportunistic real estate investments such as indirect interests in real estate through real estate private equity funds and other joint ventures, and (viii) CRE securities. NSAM 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 NSAM's CRE debt investment advisory business, NSAM, together with NorthStar Realty as the case may be, 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 NSAM (on behalf of its Managed Companies) may syndicate or sell portions of loans to seek to maximize risk-adjusted returns, manage credit exposure and generate liquidity. NSAM, together with NorthStar Realty as the case may be, 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. NSAM 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 NSAM'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

NSAM may employ leverage on behalf of its Managed Companies. NSAM's financing strategy for the Managed Companies 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, NSAM pursues a variety of financing arrangements. Such financing arrangements include securitization financing transactions, term and revolving corporate credit facilities, mortgage notes and other 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, NSAM seeks to limit recourse borrowings. Currently, the Managed Companies real estate portfolios are predominately financed with non-recourse mortgage notes, but may also include recourse corporate credit facilities.

Hedging

Accounts may be hedged using various derivative instruments, including currency and foreign exchange derivatives, interest rate swaps, caps, floors and other interest rate exchange contracts as well as engaging in short sales of securities or of futures contracts. NSAM 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 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, including the risks described in such Managed Company's public filings with the SEC, as applicable. 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 certain risks NSAM believes to be material, significant or unusual and relate to particularly significant investment strategies or methods of analysis employed by NSAM.

General Risks

- *General Economic and Market Conditions.* Challenging economic and financial market conditions may result in an increase in the number of investments that result in losses, including 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 substantial losses and need to establish significant provision for losses or impairment.

The Managed Companies manage diversified portfolios of equity and debt investments. An economic slowdown or recession, in addition to other non-economic factors such as an excess supply of properties, could have a material negative impact on the values of their investments. Declining real estate values will reduce the value of owned properties, as well as the ability to refinance properties and use the value of existing properties to support the purchase or investment in additional properties. Slower than expected economic growth pressured by a strained labor market, along with overall financial uncertainty, could result in lower occupancy rates and lower lease rates across many property types and may create obstacles to achieve the Managed Companies' business plans. The Managed Companies may also be less able to pay principal and interest on borrowings, which could cause a loss of title to the properties securing such borrowings. CRE debt investments would be similarly impacted and the level of new loan originations would also likely decline. In addition, borrowers may be less likely to achieve their business plans and less able to pay principal and interest on CRE debt investments. Further, declining real estate values significantly increase the likelihood that the Managed Companies would incur losses on their debt investments in the event of a default because the value of their collateral may be insufficient to cover costs. Any sustained period of increased payment delinquencies, taking title to collateral or losses could adversely affect Managed Companies' CRE investments as well as their ability to originate, sell and securitize loans, as applicable, which would significantly harm such Managed Companies' revenues, results of operations, financial conditions, business prospects and abilities to make distributions to their stockholders.

- *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 by 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.* The Managed Companies invest in CRE assets located in foreign countries, including significant investments in Europe, and Managed Companies may pursue other investment opportunities in foreign countries in the future. Accordingly, the business and financial results of the Managed Companies 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. Non-U.S. investments may impact performance of Managed Companies and distributions to investors necessary to maintain such Managed Company's qualification as a REIT for tax purposes.

- *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 NSAM is able to cause its Managed Companies to acquire. NSAM may not be able to compete successfully for investments on behalf of the Managed Companies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. If these events occur, Managed Companies may experience lower investment performance.
- *Joint Ventures.* The Managed Companies may enter into joint ventures with third parties to make investments and/or make investments in partnerships or other co-ownership arrangements or participations. Such investments may involve risks not otherwise present with other methods of investment, including, for example, the following risks:
 - the joint venture partner in an investment could become insolvent or bankrupt;
 - fraud or other misconduct by the joint venture partners;
 - decision-making authority may be shared with joint venture partners regarding certain major decisions affecting the ownership of the joint venture and the joint venture property, such as the sale of the property or the making of additional capital contributions for the benefit of the property, which may prevent the Managed Company from taking actions that are opposed by the joint venture partner;
 - the joint venture partner may at any time have economic or business interests or goals that are or that become in conflict with the Managed Company's business interests or goals, including for example the operation of the properties;
 - the joint venture partner may be in a position to take action contrary to the Managed Company's instructions or requests or contrary to the Managed Company's policies or objectives; and
 - the terms of the joint ventures could restrict the Managed Company's ability to sell or transfer its interest to a third party when it desires on advantageous terms, which could result in reduced liquidity.

Any of the above might subject a Managed Company to liabilities and thus reduce its returns on its investment with that joint venture partner. In addition, disagreements or disputes between the Managed Company and the joint venture partner could result in litigation, which could increase the Managed Company's expenses and potentially limit the time and effort its and NSAM's officers and directors are able to devote to the Managed Company's business.

Real Estate-Related Risk

- *Real Estate Risk.* The Managed Companies' investments in commercial real estate are 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:
 - local, state, national or international economic conditions;
 - real estate conditions, such as an oversupply of or a reduction in demand for real estate space in an area;
 - tenant/operator mix and the success of the tenant/operator business;
 - property management decisions;

- property location and conditions;
- property operating costs, including insurance premiums, real estate taxes and maintenance costs;
- the perceptions of the quality, convenience, attractiveness and safety of the properties;
- branding, marketing and operational strategies;
- competition from comparable properties;
- the occupancy rate of, and the rental rates charged at, the properties;
- the ability to collect on a timely basis all rent;
- the effects of any bankruptcies or insolvencies;
- the expense of leasing, renovation or construction;
- changes in interest rates and in the availability, cost and terms of mortgage financing;
- unknown liens being placed on the properties;
- bad acts of third parties;
- the ability to refinance mortgage notes payable related to the real estate on favorable terms, if at all;
- changes in governmental rules, regulations and fiscal policies;
- tax implications;
- changes in laws, including laws that increase operating expenses or limit rents that may be charged;
- the impact of present or future environmental legislation and compliance with environmental laws, including costs of remediation and liabilities associated with environmental conditions affecting properties;
- cost of compliance with the Americans with Disabilities Act of 1990;
- adverse changes in governmental rules and fiscal policies;
- social unrest and civil disturbances;
- acts of nature, including earthquakes, hurricanes and other natural disasters;
- terrorism;
- the potential for uninsured or underinsured property losses;
- adverse changes in state and local laws, including zoning laws; and
- other factors which are beyond control.

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.

- *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.* NSAM expects to maintain or cause each Managed Company 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 obtain, or be able to obtain, or require borrowers to obtain, terrorism insurance. 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.* Real estate investments made by the Managed Companies may be adversely affected by financial difficulties experienced by any of their major tenants/operators, including bankruptcy, insolvency or a general downturn in the business, or in the event that any of the major tenants/operators do not renew or extend their relationship with NSAM 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 NSAM 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 NSAM's ability to collect unpaid rents or interest on behalf of the Managed Companies during the bankruptcy proceeding. Furthermore, dealing with a tenant/operator's bankruptcy or other default may divert NSAM's attention and cause the Managed Companies to incur substantial legal and other costs.

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 meet their obligations to the Managed Companies.
- *Licensure, Certification and CON.* Hospitals, skilled nursing, senior housing facilities and other healthcare providers that operate healthcare properties are subject to extensive state licensing and registration laws. The failure of operators and tenants to maintain or renew any required license, certification, accreditation or regulatory approval could prevent a facility from operating in the

manner intended by the operators or tenants which could have an adverse effect on the ability of the Managed Companies' operators to meet their obligations to the Managed Companies. Certain of the Managed Companies' healthcare properties are subject to a variety of state certificate of need ("CON") laws and regulations, which may restrict the ability of operators to add new properties or to expand an existing facility's size or services. In addition, CON laws may constrain the ability of the Managed Companies to transfer responsibility for operating a particular facility to a new operator.

- *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 NSAM'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. 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.

Hotel Real Estate-Related Risk

- *Hotel Industry Risk.* Certain Managed Companies invest in hotel properties, which are subject to risks associated with the lodging industry. The value of hotel properties may be adversely affected by travel patterns of business and leisure travelers, both of which are affected by the strength of the economy, as well as other factors. Certain types of hotels, including upscale extended stay and select service hotels that target business and high-end leisure travelers, may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. In addition, the value of hotel properties may be adversely affected by other risks, including, without limitation:
 - changes in the international, national, regional and local economic climate;
 - changes in business and leisure travel patterns;
 - increases in energy costs or airline fares or terrorist incidents;
 - outbreaks of disease, poor weather, earthquakes, hurricanes or other natural disasters;
 - physical damage to, and lost income from, hotels as a result of natural disasters and other causes;
 - changes in room rates and increases in operating costs;
 - supply growth in the hotel markets;
 - the performance of hotel managers;

- unionization of the labor force at hotels;
- changes in government laws and regulations, zoning ordinances, and the related costs of compliance therewith and the potential for liability under applicable laws; and
- the potential for uninsured or underinsured property losses.

These factors may have a material adverse effect on the value of hotel properties and returns that such Managed Companies can realize from such properties.

- *Hotel Management Risk.* Third-party managers, including, in the case of NorthStar Realty, Island, are relied upon to operate hotel properties. There is a risk that these third-parties will fail to successfully manage the daily operation and marketing of hotel properties. Management of room rates, food and beverage pricing, the quality of services and amenities, hotel employees and operations, and similar matters may impact the value of and investment returns from hotel properties.

CRE Debt and Securities Risk

- *CRE Debt and Securities.* 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 a Managed Company acquiring ownership of the property. NSAM 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 Managed Companies may originate or acquire subordinate CRE 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.
- *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 2015. 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 in 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.
- *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 an 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.
- *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. NSAM'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. NSAM'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. NSAM'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 NSAM were forced to liquidate securities investments into the current market could be materially different than management's best estimate of fair value.

ITEM 9: DISCIPLINARY INFORMATION

Not applicable.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Each NSAM Adviser is an indirect subsidiary of NSAM Parent. In some cases, NSAM Advisers or NSAM Parent or its subsidiaries may have business arrangements with related persons/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 an NSAM Adviser and a Managed Company.

NorthStar Realty, one of the Managed Companies, is a minority owner of RXR Realty, a real estate owner, developer and investment management company focused on the New York City Tri-State area. NSAM Parent and RXR Realty co-sponsor NS/RXR Income, which is a Non-Traded Managed Company managed by an NSAM Adviser and sub-advised by RXR Realty. NSAM and RXR Realty receive management, sub-advisory fees and/or other service fees from such co-sponsored REIT, as described in Item 5, above. Additionally, NSAM is entitled to certain fees based on the performance of RXR Realty's investment management business. Finally, NorthStar Realty may provide distribution support to the REIT, which may represent a conflict of interest for their respective advisers.

NSAM also formed a partnership with James F. Flaherty III, former Chairman and Chief Executive officer of HCP, Inc. Mr. Flaherty helps manage the healthcare real estate portfolios of NorthStar Realty and other Managed Companies. The partnership with Mr. Flaherty is entitled to incentive fees ranging from 20-25% above certain hurdles in connection with new and existing healthcare real estate investments on the Managed Companies' balance sheets and new investments in future healthcare real estate funds raised by the partnership. The partnership also is entitled to the incentive fees earned by NSAM from managing NS Healthcare and any future healthcare non-traded REITs sponsored by NSAM, including any future non-traded REITs that are co-sponsored by NSAM and AHI. These fees are separate from, and in addition to, fees paid to the NSAM Advisers.

NSAM Parent, through a wholly-owned subsidiary, also acquired a minority equity interest in the business of AHI, a healthcare-focused real estate investment management firm and former adviser to GAHR II, a healthcare-focused non-traded REIT acquired by NorthStar Realty. NSAM Parent's investment in AHI is structured as a joint venture between NSAM, a trust owned by Mr. Flaherty and the principals of AHI. The joint venture provides certain asset management, property management and/or other services to the NSAM Advisers to assist NSAM in managing certain healthcare assets owned by NorthStar Realty, NS Healthcare and future Managed Companies. As a minority investor in AHI, NSAM Parent is entitled to receive certain distributions of operating cash flow and certain promote fees from AHI, including as a result of any fees paid to AHI by Managed Companies for management and related services.

NSAM Parent, through a wholly-owned subsidiary, also acquired a minority equity interest in the business of Island, a hospitality-focused real estate management firm. NSAM Parent's investment in Island is structured as a joint venture and the principals of Island continue to run the day-to-day operations of Island's business, including continuing as the operator of a majority of the hotel portfolio owned by NSAM's Managed Companies. As a minority investor in Island, NSAM Parent is entitled to receive certain distributions of operating cash flow from Island in accordance with the allocations set forth in the joint venture agreement, including as a result of fees paid to Island for operating certain hotels owned by Managed Companies.

NorthStar Securities, a wholly-owned subsidiary of NSAM Parent, is a broker-dealer registered under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority ("FINRA"). NorthStar Securities is responsible for marketing shares of certain of the Managed Companies and serves as the dealer-manager for the sale of shares of the Non-Traded Managed Companies, for which it receives a fee of up to 3% based on gross offering proceeds of the applicable Non-Traded Managed Company.

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

NSAM's investment professionals devote time to the management of multiple Managed Companies, which may create conflicts in the allocation of management resources. In addition, a Managed Company may have an investment mandate that is similar to and/or overlapping with the investment mandates of other Managed Companies, which may create conflicts in the allocation of investment opportunities between Managed Companies. Certain Managed Companies and other companies, funds or vehicles may be co-sponsored, co-branded or co-founded by, or subject to strategic relationships between, NSAM and strategic or joint venture partners of NSAM (collectively, "Strategic Vehicles"). Therefore, many investment opportunities sourced by NSAM's investment professionals or NSAM's strategic or joint venture partners may be suitable for multiple Managed Companies and/or Strategic Vehicles, which also may create conflicts in the allocation of investment opportunities. Investment opportunities sourced by NSAM's investment professionals are allocated to one or more Managed Companies, Strategic Vehicles or affiliates of NSAM ("Affiliated Entities") in accordance with the allocation policy adopted by NSAM and approved by the Managed Companies from time to time. (See **Item 12: Brokerage Practices—Allocation Policy**).

NSAM may recommend that one Managed Company invest in, or engage in transactions with, other Managed Companies. NSAM has an incentive to favor investments in, as well as corporate combinations, reorganizations or other transactions between or among, two or more Managed Companies that may increase NSAM's overall remuneration.

Finally, NSAM Parent has entered into a revolving credit agreement with NorthStar Realty, which NSAM Parent may use for general corporate purposes, including potential future acquisitions. In addition, NSAM Parent may use the proceeds to acquire assets on behalf of the Managed Companies that NSAM Parent intends to allocate to such Managed Companies but for which such Managed Companies may not then have immediately available funds. This line of credit facility may create a conflict of interest between NorthStar Realty and NSAM Parent.

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

Code of Ethics

NSAM has adopted a Code of Ethics (the "Code") that applies to all NSAM employees. This Code describes the standard of conduct that NSAM 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 NSAM'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. NSAM 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, NSAM has established policies requiring "access persons" to

obtain pre-clearance before investing in certain reportable securities such as initial public offerings and private placements (including private equity fund and hedge fund investments). In addition, NSAM 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 NSAM buys or sells securities or other investments for Managed Companies if NSAM feels that there is a possibility that the personal trade would benefit from NSAM’s investment activities.

All of NSAM’s employees are required to annually certify that they have complied with the Code and NSAM’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

NSAM employees must obtain prior permission of the CCO or designee for certain transactions that appear to pose a conflict of interest or otherwise appears improper. In particular, all NSAM employees must have written pre-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, NSAM employees must have pre-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 NSAM and its employees. NSAM maintains a restricted list of securities in which NSAM may have material non-public information. NSAM employees are prohibited from trading in issuers on the restricted list.

Gifts and Entertainment

NSAM 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

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

Other Conflicts

NSAM manages investments on behalf of different Managed Companies. Certain Managed Companies have investment programs that are similar or may overlap and may, therefore, participate with each other in (or compete for) 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 NSAM 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’ Governing Documents will control. NSAM 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 NSAM may allocate a particular investment among the Managed Companies unequally, the Managed Companies may produce results that are materially different from one another. See, also, "Allocation Policy", in Item 12, below.

ITEM 12: BROKERAGE PRACTICES

Transaction Execution and Broker-Dealer Selection

NSAM 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.

NSAM may 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.

Not all portfolio transactions require or involve a broker-dealer. When it is deemed necessary or appropriate to involve a broker-dealer in portfolio transactions for the Managed Companies, such transactions will be allocated to brokers and dealers on the basis of NSAM's best execution policies. NSAM'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.

Allocation Policy

NSAM has adopted an allocation policy that applies to investment opportunities which have limited capacity and/or time availability. This policy directs NSAM to allocate investment opportunities among Managed Companies, Strategic Vehicles and Affiliated Entities in a manner that is fair and equitable over time to the extent practicable.

When NSAM sources an investment opportunity, NSAM, 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, NSAM personnel may consider several factors, which may include, among others, as appropriate: the vehicle's investment objectives, strategy and criteria; cash requirements; the effect of the investment on the diversification of the portfolio, including by geography, size of investment, type of investment and risk of investment; leverage policy and the availability of financing for the investment; anticipated cash flow of the asset to be acquired; income tax effects of the purchase; size of the investment; amount of funds available; cost of capital; risk return profiles; targeted distribution rates; anticipated future pipeline of suitable investments; expected holding period for the investment and the remaining term of the investment vehicle; affiliate and/or related party considerations; and whether any special allocations have been made to the investment vehicle.

If, after consideration of the relevant factors, NSAM determines that an investment is equally suitable for more than one Managed Company, Strategic Vehicle or Affiliated Entity, the investment will be allocated among each of the applicable Managed Companies, Strategic Vehicles or Affiliated Entities on a rotating basis. New clients will be initially added to the end of the rotation. 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 NSAM's investment professionals, more appropriate for a different entity to fund the investment, NSAM may determine to place the investment with the more appropriate entity while still giving credit to the original allocation. In certain situations, NSAM may determine to allow more than one Managed Company, Strategic Vehicle and/or Affiliated Entity to co-invest in a particular investment. In addition, Strategic Vehicles may receive preference in the allocation of an investment opportunity that is initially presented to NSAM by the applicable strategic or joint venture partner.

NSAM will allocate third-party acquisition costs incurred in connection with the selection, acquisition or origination of an investment to those clients who acquire or originate the investment. Such allocation will be made in accordance with each client's allocation of the investment opportunity. If NSAM does not complete a proposed investment, it will allocate any third-party acquisition costs (Broken Deal Costs) incurred to date, to those clients that would have acquired or originated the investment in accordance with the allocations set out in the applicable investment allocation. If NSAM does not complete an investment before making an investment allocation, it will allocate the Broken Deal Costs to all clients for which the investment opportunity was equally suitable. Such Broken Deal Costs will be allocated pro-rata based on each client's relative capital available for investment at the time.

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, NSAM 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.

Currently, 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. NSAM may provide certain investors with information on a more frequent and detailed basis if agreed to by NSAM.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

NSAM does not engage any parties to solicit clients, nor does it receive compensation from sources other than its clients for providing advice to its clients.

ITEM 15: CUSTODY

In connection with the management of investments for the Managed Companies, NSAM may have, or may be deemed to have, custody of a Managed Company's funds or securities. Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), which 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).

NSAM 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, NSAM receives discretionary investment authority from each Managed Company at the outset of an advisory relationship. Depending on the terms of the Managed Company's asset management or advisory agreement, NSAM'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, NSAM is guided by the mandate selected by the Managed Company and any investment guidelines or restrictions imposed by the Managed Company. NSAM generally is not required to provide notice to, consult with, or seek the consent of the Managed Companies prior to engaging in transactions that fall within a Managed Company's approved investment guidelines.

ITEM 17: VOTING CLIENT SECURITIES

NSAM invests primarily in private equity and debt real estate investments on behalf of Managed Companies. Accordingly, NSAM does not ordinarily receive proxy voting proposals with respect to listed equity securities. However, NSAM 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. NSAM will seek to exercise such authority in accordance with written policies and procedures designed to promote decisions that are in the best economic interests of the Managed Companies and insulated from conflicts of interest.

ITEM 18: FINANCIAL INFORMATION

Not applicable.