



**Form ADV Part 2**

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**This brochure provides information about the qualifications and business practices of Torchlight Investors, LLC. If you have any questions about the contents of this brochure, please contact us at 212-883-2800. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the "SEC") or by any state securities authority. Additional information about Torchlight Investors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level or skill or training.**

**Item 2: Material Changes**

In 2015, both Torchlight Value Fund, Inc. and Torchlight Value Fund Master, LLC (formerly Clarion Value Fund, Inc. and Clarion Value Fund Master, LLC respectively) deregistered and are no longer registered as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”). Torchlight Value Fund Master, LLC now maintains an exemption from registration as an investment company under the 1940 Act and is a private fund. Torchlight Value Fund, Inc. was liquidated.

### Item 3: Table of Contents

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#### **Item 4: Advisory Business**

Torchlight Investors, LLC ("Torchlight") is registered as an investment adviser with the SEC. Together with its affiliates, Torchlight has 46 employees and a seasoned management team that averages over 20 years of experience. Torchlight has been managing commercial real estate related investments (predominately debt investments) for institutional clients since 1995.

Torchlight's principal owner (defined as a person owning 25% or more of Torchlight) is Torchlight Holdings, LLC. Daniel Heflin, the Chief Executive Officer, Chief Investment Officer, and President of Torchlight, owns at least 25% of the firm through an intermediate subsidiary.

Torchlight provides investment management and advisory services relating primarily to commercial real estate related investments (predominantly debt instruments), including but not limited to commercial mortgage backed securities ("CMBS"), commercial real estate loans and subordinated interests including mezzanine investments and equity. In providing these services, Torchlight determines when and which securities will be acquired or disposed of on behalf of its clients so as to maintain a portfolio consistent with the objectives and policies of each client, based upon Torchlight's assessment of investment opportunities available at the time. Certain clients may impose restrictions on investing in certain investments or types of investments. Such restrictions would be pursuant to a client agreement.

Torchlight currently manages, on a discretionary basis, \$4,576,539,173, as of December 31, 2015. Torchlight does not manage any assets on a non-discretionary basis.

#### **Item 5: Fees and Compensation**

Torchlight is compensated for advisory services performed based on negotiated fee rates documented in client advisory contracts. Despite the following discussion, the amounts, timing and other terms relating to compensation are negotiated and may vary significantly among Torchlight's advisory clients. Annual fees are negotiated to be consistent with the requirements of the advisory client and the scope of services provided. Torchlight's fee for its investment management services is an annual fee of generally up to 2% of the advisory client's assets under management or committed capital. Fees are generally deducted from each advisory client and are payable on a quarterly or monthly basis in advance or in arrears. Torchlight may also receive performance fees. Torchlight negotiates with the advisory client as to the duration of the investment relationship and the terms under which such relationship may be terminated. Upon termination, any unearned portion of prepaid fees may be refunded to the client. Termination and expiration provisions are set forth in each advisory contract.

Torchlight also operates services businesses. Torchlight Loan Services, LLC ("TLS"), a wholly-owned subsidiary of Torchlight, performs loan work-out services as a Special Servicer. In its capacity as a Special Servicer, TLS is responsible for resolving delinquent and defaulted commercial real estate mortgage loans which are held by trusts that issue CMBS (or, in some instances, collateralized debt obligations ("CDOs")). The role and responsibilities of a Special Servicer are typically defined in a Pooling and Servicing Agreement ("PSA") for each such issuer. Torchlight's advisory clients frequently have an indirect interest in mortgage loans serviced by TLS by virtue of holding CMBS of the relevant issuer. Typically, the holder of the "controlling class" or "first loss piece" (i.e., the most subordinate class of security) of a CMBS issuer has the right to appoint the Special Servicer. Torchlight advisory clients may acquire a class of CMBS that, pursuant to the relevant PSA, carry the right to appoint the Special Servicer for the relevant issuer (and, in certain instances, the right to appoint the Directing Certificateholder Servicing Consultant). Torchlight advisory clients may also acquire a class of CMBS that do not, at the time of acquisition, carry the right to appoint the Special Servicer, but obtain that right once the class becomes the controlling class (due to losses incurred by the previous controlling class). In such a case Torchlight expects to exercise that right on behalf of its client to appoint TLS as Special Servicer of the relevant issuer (except, for instance, in cases in which the PSA does not permit the holder of the controlling class to appoint an affiliate as Special Servicer). Torchlight may also acquire securities that carry the

right to direct special servicing assignments for its own account if, as determined in accordance with Torchlight allocation procedures, Torchlight determines that such security is not suitable for any of Torchlight's advisory clients.

Torchlight (directly and through Collateral Management, LLC, its wholly-owned subsidiary ("CMLLC")) is engaged in the business of providing collateral management services to issuers of CDOs. Torchlight's or CMLLC's role and responsibilities are defined in each case by an indenture and collateral management agreement with the particular issuer. In general, these responsibilities include monitoring the collateral of the issuer (principally CMBS), reporting to the trustee in respect of the collateral and other related administrative services.

Torchlight earns indirectly additional compensation in respect of advisory relationships by reason of TLS or Torchlight (or CMLLC) earning special servicing or collateral management fees from issuers when advisory clients own the CMBS or CDOs of the related issuers, particularly where clients possess the right to appoint a Special Servicer or collateral manager. Consequently, Torchlight faces a conflict of interest in determining whether to invest client assets in securities that carry the right to appoint a Special Servicer or collateral manager, as Torchlight has a financial incentive to facilitate such appointments in order to earn additional fees.

In any instance in which Torchlight, in its role as investment adviser, facilitates the appointment of TLS as Special Servicer, TLS will be entitled to receive certain fees that are specified in the governing PSA (such as fixed, periodic fees that are determined as a percentage of principal amount of loans in special servicing or resolution fees earned as percentage of the face amount of a loan that has been resolved) as well as certain fees the amount of which may be negotiated by the special servicer with the borrower on a case-by-case basis (such as a forbearance fee for granting a borrower additional time to achieve a milestone). With respect to the former, TLS generally will be paid the amount of the fee specified in the PSA. With respect to the latter, TLS endeavors to negotiate a fee in each transaction that is consistent with prevailing market practice and within the range of prevailing rates, as determined by Torchlight in good faith and without regard to fee-sharing arrangements (meaning that in determining what the range of market rates is, Torchlight considers the aggregate fee paid by borrowers in similar circumstances even if a Special Servicer has agreed to share a portion of that fee with another party). TLS, Torchlight or CMLLC, as the case may be, may continue to act as Special Servicer or collateral manager to, and earn fees from, CMBS and CDO issuers in which the Torchlight client has acquired securities and facilitated the appointment after such securities have been disposed of by the client. In certain instances in which an unaffiliated third party owns the controlling class of CMBS, TLS agrees to share Special Servicing fees with the holder of the controlling class in consideration of being appointed Special Servicer. In such instances TLS acts as Special Servicer for lower total fees than it receives when Torchlight, on behalf of clients, appoints TLS as Special Servicer, because TLS does not share fees with Torchlight clients when Torchlight clients own the controlling class.

Torchlight advisory clients will upon occasion purchase at initial issuance the controlling class of a CMBS issuer in a transaction negotiated by Torchlight with the sponsor of the issuer. Following such purchase, the client will have the ability to appoint the Special Servicer and, as discussed above, Torchlight, on behalf of the client, expects to appoint TLS. In connection with the purchase of the controlling class, Torchlight generally will have some ability to negotiate the terms of the governing PSA, including the fee schedule that will determine the fees that the Special Servicer will be paid by the issuer. In negotiating the PSA, Torchlight will endeavor to negotiate Special Servicing fees that are within the range of prevailing rates for new CMBS issuances as specified in PSAs, but Torchlight does not anticipate attempting to negotiate terms that would result in fees at the bottom or low end of the market. In certain such PSAs, TLS is designated by the controlling class as the "Directing Certificateholder Servicing Consultant". TLS' role in that capacity is to review and evaluate from the standpoint of the controlling class certain actions proposed to be taken by the master servicer from time to time with respect to performing loans (such as a request to allow a borrower to substitute collateral for the loan) and to determine whether to grant consent to the action on behalf of the controlling class. The borrower will typically pay a fee in connection with such actions and TLS will be paid a percentage of the fees (as specified in the PSA). The fee paid to TLS for performing this function is commensurate with fees paid to Special Servicers in other PSAs for performing a similar function. Accordingly, Torchlight faces a conflict of interest in negotiating PSAs, and Torchlight should be considered as earning additional advisory

compensation in transactions in which a client purchases the controlling class and TLS earns Special Servicing fees or Directing Certificateholder consulting fees.

The sharing of Special Servicing fees by Special Servicers with unaffiliated third parties that own a controlling class of CMBS (and therefore have the authority to appoint the Special Servicer) has become more prevalent in recent years. This practice has given rise to a conflict of interest for Torchlight with respect to controlling classes of CMBS held by Torchlight advisory clients, as Torchlight has the opportunity to negotiate on behalf of its clients fee sharing arrangements with Special Servicers under which the Special Servicers would share Special Servicing fees with the Torchlight clients in consideration of being appointed as Special Servicer. As noted above, Torchlight will not enter into fee sharing arrangements on behalf of its advisory clients with unaffiliated third parties or with TLS in which Special Servicing fees are paid to Torchlight clients, even though amounts received from such arrangements could be material in comparison to the returns to the clients on the related CMBS. Instead, Torchlight expects to appoint TLS which will retain the full amount of fees payable under the relevant PSA. Under certain circumstances Torchlight will enter into fee sharing arrangement on behalf of clients in which Torchlight appoints a third party as Special Servicer and the Special Servicer agrees to share servicing fees with TLS. In those circumstances, TLS reviews and approves actions of the Special Servicer, and the Special Servicer agrees to permit Torchlight to participate in the exercise of options (on behalf of its client) to purchase assets that are being specially serviced.

There is no restriction on Torchlight's ability to sell all or a portion of the equity interests in TLS, or to enter into a joint venture or other transaction in which Torchlight will receive compensation (directly or indirectly) from a third party in exchange for the third party acquiring an economic interest in TLS. The amount of compensation that Torchlight would receive from such a sale or other transaction would correlate directly with TLS' projected, future revenue, a substantial portion of which would be from CMBS issuers for which Torchlight advisory clients hold the controlling class and have the authority to appoint the Special Servicer. In such a sale, Torchlight could give assurances to a third party on behalf of its advisory clients, that the clients will not remove TLS as Special Servicer following such a transaction provided that the Special Servicer continues to perform its responsibilities in accordance with industry standards.

#### Service Providers

Torchlight is responsible for appointing service providers to certain of its clients, which may be third parties or affiliates of Torchlight, and for negotiating the fees to be paid by its clients to such service providers, including the transactional costs directly related to the clients' investment and trading activities, such as brokerage commissions and interest expenses, the costs of due diligence and managing, administering, pricing and other services. This gives rise to a conflict of interest as Torchlight has a financial incentive to appoint affiliates to provide such services. Fees for any such services that are provided by affiliates will be within the range of prevailing market rates, as determined by Torchlight in good faith in accordance with its procedures.

Advisory clients may also pay account or investment related operating expenses including, but not limited to, the costs and expenses relating to the investigation and review of the advisory client's investments; the fees of service providers in connection with the conduct of due diligence and credit assessment services related to the acquisition and retention of the advisory client's investments; the costs related to the advisory client's account operations, including, but not limited to, the following expenses: accounting, auditing, tax-related, reporting and legal (structuring, documentation and closing) and the costs and expenses of certain investment or portfolio management services (which may include due diligence, loan servicing, asset management, debt workout, and other real estate services). Brokerage and transaction related costs are explained in greater detail in Item 12.

Services that are provided by Torchlight and its affiliates to assets held in client accounts may continue to be provided with respect to such assets after they have been disposed of by client accounts. In such a case, the service provider would continue to earn fees with respect to such assets after their disposition by the client accounts (and potentially after the termination of the client accounts).

#### **Item 6: Performance Based Fees and Side by Side Management**

Torchlight may charge a performance fee to qualified clients. Torchlight may receive performance fees, generally up to 20%, with regard to unrealized appreciation as well as realized gains in a client's account, depending on the account. Torchlight also manages client accounts for which it receives fees based solely on the client's assets under management or committed capital. A performance fee arrangement may create an incentive for Torchlight to make investments that are riskier or more speculative than would be the case absent such a fee. A performance fee may also create incentive for Torchlight to favor certain clients in the allocation of investment opportunities among clients. Torchlight seeks to address these conflicts by having established policies and procedures that address such conflicts of interest, such as allocation procedures for securities transactions. Such procedures are designed to seek the fair and equitable allocation of securities transactions among Torchlight's advisory clients.

#### **Item 7: Types of Clients**

Torchlight provides advisory services to various institutional clients, including, pension or similar plans; insurance companies; foundations or other charitable organizations; and various corporate or other business entities. Torchlight also provides investment management services to several private investment funds structured so as not to require registration under the Investment Company Act of 1940 and the Securities Act of 1933.

As a condition to the establishment or maintenance of investment advisory accounts, Torchlight requires minimum portfolio amounts that vary based on the investment strategy (typically ranging from \$20 million to \$100 million). Minimum investment amounts for participation in the investment funds advised by Torchlight vary as well (typically \$5 million). Torchlight may change or waive these minimum requirements from time to time.

#### **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

Torchlight's analysis of investment opportunities includes both fundamental and technical analysis. Fundamental analysis generally involves evaluating an investment opportunity based on a measured analysis of the investment target's assets, cash flows and other criteria. Technical analysis generally involves considering the markets more broadly. Torchlight relies primarily on analyses and reports produced internally or by third parties. Such third party information used in investment analysis includes, among other things, annual reports and prospectuses, corporate rating services/rating agencies, financial newspapers and company press releases.

Types of investment strategies utilized include the purchase, sale, structuring and origination of commercial real estate related investments including CMBS, senior mortgage loans, subordinate mortgage loans, mezzanine loans secured by commercial real estate, interests in commercial real estate and REIT equities. Torchlight also utilizes long and short term purchases of various types of investment products such as structured debt instruments of various credit quality, including CDOs, interest rate swaps, synthetic securities (e.g. credit default swaps, total rate of return swaps, etc.) and margin transactions. Certain clients of Torchlight may use investment strategies that involve the use of leverage, short selling or hedging instruments.

Investing in the strategies managed by Torchlight involves a risk that a client could lose all or substantially all of their capital investment. Clients and investors should be prepared to bear this risk of loss. Investing in the instruments and strategies employed by Torchlight involves general real estate market risks, interest rate and hedging risks, risk of extensions or prepayments on the underlying loans, risks of investing in subordinate debt instruments (or lower credit quality debt instruments) and mezzanine loans, risk of use of leverage, derivative and counterparty risks, and valuation risks. Disclosures of specific risk factors are presented to clients or prospective clients in offering memoranda, prospectuses, or similar documents. Set forth below are summaries of some, but not all, risks associated with Torchlight investment strategies.

### *General Real Estate Market Risks*

Real estate, like many other types of long-term investments, historically has experienced significant fluctuation and cycles in value. Specific market conditions may result in occasional or permanent reductions in the value of the investments managed by Torchlight. The cash flow and value of the investments managed by Torchlight will depend on many factors beyond its control, including, without limitation: changes in general economic or local conditions; changes in the supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); changes in interest rates; the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; unavailability of mortgage funds which may render the construction, leasing, sale or refinancing of a property difficult; the financial condition of borrowers and of tenants, buyers and sellers of property; changes in real estate tax rates and other operating expenses; the imposition of rent controls; energy and supply shortages; various uninsured or uninsurable risks; and natural disasters and terrorist attacks.

### *Interest Rate Risk and Hedging*

The market values of certain investments managed by Torchlight will generally fluctuate inversely with changes in prevailing interest rates. Interest rates are highly sensitive to many factors, including governmental, monetary, fiscal and tax policies, domestic and international economic and political considerations, and other factors beyond the control of Torchlight. Interest rate fluctuations can adversely affect the income that certain investments generate in many ways and present a variety of risks, including the risk of increased prepayments. In addition, debt instruments with longer durations tend to be more sensitive to changes in interest rates and spreads, making them usually more volatile than debt instruments with shorter durations. To the extent that Torchlight does not hedge these changes, or hedging techniques employed by Torchlight do not offset these changes, an investment's returns will also fluctuate in relation to these changes. The variety of hedging techniques employed by Torchlight and the different characteristics of particular assets in which Torchlight may invest on behalf of clients make it very difficult to predict precisely the impact of interest rate changes on an assets performance.

### *Extension and Prepayment Risk*

Investments purchased at discounts are subject to the risk that a slower than expected rate of principal payment on the underlying mortgage loans could result in an actual yield that is lower than the anticipated yield from these investments. The yield on any investment will be affected by the rate and timing of principal payments applied in reduction of the actual or, in the case of certain interest-only debt instruments, the notional principal amount of such assets. The rate and timing of these principal payments, or in the case of principal losses, principal or notional write-downs, will be affected by, among other factors, (i) the collection experience on the underlying mortgage loans, particularly unscheduled principal payments or collections in the form of voluntary prepayments of principal or unscheduled recoveries of principal due to defaults, and (ii) the order of priority in which such principal and collections are distributed in reduction of the actual or notional principal balance of the assets. Although the underlying mortgage loans within each transaction invested in by Torchlight's clients may offer structural protection to early voluntary repayment in the form of prepayment penalties or yield maintenance payments, most subordinate classes will not receive such penalties or payments.

### *Risks of Subordinate Debt Instruments*

Investments in subordinate debt instruments backed by commercial real estate assets, such as subordinate CMBS, subordinate or mezzanine mortgage loans, or investments in entities which hold subordinate or mezzanine mortgage loans, involve greater credit risk of default than the senior debt instruments. Many of the default-related risks of whole loan mortgages will be magnified in subordinate debt instruments. Default risks may be further pronounced in the case of subordinate interests secured by, or evidencing an interest in, a relatively small, less diverse pool of underlying mortgage loans, or in some instances a single property. Certain subordinate debt instruments absorb all losses from default before any other class of debt instruments is at risk, particularly if such debt instruments have



been issued with little or no credit enhancement or equity. With respect to such investments, if a borrower defaults, there may not be sufficient funds remaining for the holder of the subordinate debt instrument. Such debt instruments therefore possess some of the attributes typically associated with equity investments. Certain subordinate debt instruments are privately negotiated. Such loans can vary in their structural characteristics and risks, including for example, the rights of the holder of the loan to control the process following a borrower default.

Torchlight, on behalf of clients, invests in debt instruments of varying credit quality such as lower rated or subordinate CMBS. Torchlight invests in debt instruments that may be deemed by nationally recognized rating agencies or other measures to have substantial vulnerability to default in payment of interest and/or principal. Debt instruments purchased on behalf of clients may have the lowest quality ratings provided by the rating agencies or may be unrated. Lower rated and unrated debt instruments have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such debt instruments offer the potential for greater returns than higher rated debt instruments, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these subordinate debt instruments also tend to be more sensitive to changes in economic conditions than higher rated debt instruments or more senior debt instruments. Declining real estate values in particular will increase the risk of loss upon default and if rated, may lead to a downgrade of the debt instruments by the rating agencies, which may reduce the values of these debt instruments and have an adverse effect on Torchlight's clients that invest in them. The value of such debt instruments may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

#### *Risks Associated with Commercial Property Loans*

Torchlight may originate or invest in loans secured by various types of commercial real estate, including but not limited to multifamily, hotel, retail, office, mobile home, student housing, self storage, industrial, and mixed-use properties (collectively "Loans"). Such Loans are subject to normal credit risks as well as those generally not associated with traditional debt instruments. The ability of the borrowers to repay the Loans will typically depend upon the successful construction or rehabilitation and operation of the related real estate projects and the availability of financing. Any factors that affect the ability of the projects to generate sufficient cash flow could have a material effect on the value of the Loans. Such factors include, but are not limited to (a) the uncertainty of cash flow to meet fixed obligations, (b) adverse changes in general and local economic conditions, including interest rates and local market conditions, (c) tenant credit risks, (d) the unavailability of financing, which may make the operation, sale, or refinancing of a property difficult or unattractive, (e) vacancy and occupancy rates, (f) construction and operating costs, (g) regulatory requirements, including zoning, rent control and real and personal property tax laws, rates and assessments, (h) environmental concerns, (i) project and borrower diversification, (j) vandalism (with attendant security costs), (k) uninsured losses, (l) restrictions and compliance costs imposed by the Americans with Disabilities Act and similar federal, state, or local laws, and (m) general nonrecourse status. In addition, commercial properties often involve a single user or tenant, or relatively few tenants, which can increase risk of loss. Commercial property specifications may be tailored to the requirements of particular users or tenants and, accordingly, it may be difficult, costly and time consuming to liquidate such properties or attract new tenants.

#### *Leverage Risks*

Subject to limitations negotiated with each client, Torchlight may use leverage in connection with its investments. While the use of leverage may enhance returns and increase the number of investments that can be made by Torchlight, it may also substantially increase the risk of loss. Also, there can be no assurance that financing will be available to Torchlight, that it will be available on a continuous basis or that it will be available on favorable terms. Torchlight may also not be able to obtain financing with a term that matches the maturity of the investments acquired with such financing. In such a case, Torchlight may need to liquidate investments to pay off such financing or to obtain replacement financing on less favorable terms. Torchlight, depending on each client, may leverage its

clients' investments through the use of derivative instruments, credit lines, options, commodity futures contracts, short sales, swaps, forwards, synthetic contracts and securitizations. The amount of borrowings that may be outstanding at any time on a client's investments may be large in relation to its capital.

#### *Derivative and Counterparty Risks*

Torchlight may utilize derivative instruments and techniques in order to hedge interest rate risk to which its clients are subject or to take on synthetic exposure to an investment. Engaging in derivative transactions is subject to specific risks. The prices of all derivative instruments, including options and swaps, are highly volatile. Price movements of options, contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the debt instruments or other instruments underlying them. In addition, the use of derivative instruments and techniques involves the risk of the failure of any counterparty to a derivative instrument.

Many of the markets in which Torchlight will affect transactions for its clients will be "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. This exposes a client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the applicable contract (whether or not such dispute is bona fide) or because of a credit or liquidity problem, causing the client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Torchlight has concentrated its clients' transactions with a single or small group of counterparties.

#### *Valuation Risk*

The values of a client's investment positions can be highly volatile and may require input from Torchlight or other third parties. Valuations requiring input from Torchlight or other third parties may be based on subjective inputs of Torchlight or such third parties and may be influenced by, among other things, interest rates, changing supply and demand relationships, governmental, trade, fiscal, monetary and exchange control programs and policies, and national and international political and economic events. In some cases, valuation of certain investments may be based upon models, indicative quotes or estimates of value and not actual executed historical trades. Torchlight will use reasonable efforts to base such valuations on observable market prices and inputs but there can be no assurances that such information will be readily available. There can be no assurances that illiquid investments can be disposed of or liquidated at the valuations established by Torchlight or other third parties. Torchlight may face conflicts of interest when it values investments, as its fee is typically based on such valuations. To address these conflicts of interests, Torchlight follows valuation procedures that are designed to produce objective valuations in accordance with generally accepted accounting principles.

#### *Role as Special Servicer*

Assets held by the advisory clients and/or other clients of Torchlight may be a factor, and potentially a significant factor, in determining whether Torchlight will have the authority to select or recommend its affiliate to act as loan servicer or Special Servicer (or to perform other services). This gives rise to a potential conflict of interest as Torchlight has financial incentive to invest client's capital in transactions in which Torchlight may appoint an affiliate to perform such services.

As a Special Servicer, Torchlight and its affiliates may be named in lawsuits brought by parties with interests in CMBS as well as the underlying mortgage loans and properties that serve as collateral. Please contact Torchlight for additional information related to such legal matters.

**Item 9: Disciplinary Information**

Torchlight has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction. Likewise, no persons involved in the management of Torchlight have been subject to such action.

**Item 10: Other Financial Industry Activities and Affiliations**

Affiliates of Torchlight serve as the general partner/managing member for several funds that are not registered with the SEC (collectively "Funds"). These Funds invest in commercial real estate related investments (primarily debt), but may have a variety of investment strategies over time. Certain Funds invest in each other through master/feeder relationships.

Advising the clients named above may pose a conflict of interest relating to allocation of investment opportunities. Torchlight seeks to address these conflicts by having established policies and procedures that address such conflicts of interest, such as allocation procedures for securities transactions. Such procedures are designed to provide for a fair and equitable allocation of securities transactions among Torchlight's advisory clients.

**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Torchlight and its affiliates may trade or invest proprietary capital in securities in which clients may or may not also invest. Such trading or investments may create actual or potential conflicts of interest as Torchlight and its personnel may have a greater incentive with respect to the performance of proprietary accounts than that of third party client accounts. Torchlight has established policies and procedures that address such conflicts of interest, such as allocations procedures for securities transactions. Such procedures are designed to provide for a fair and equitable allocation of securities transactions among Torchlight's advisory clients, and to place the interests of Torchlight's clients ahead of the interests of Torchlight and its personnel when trading debt instruments.

Torchlight and its principals or employees and other affiliates may invest in funds managed for third-party clients and may therefore have financial interests in investment products that Torchlight recommends to clients. Such funds are treated without preference as clients of Torchlight. Torchlight does not buy portfolio securities from, or sell securities to, any advisory client. However, from time to time, Torchlight and its principals or employees and other affiliates may purchase, sell or hold positions in securities recommended to clients. Various procedures, including a personal trading policy in the Code of Ethics ("COE") for Torchlight's principals and employees, are maintained to address the conflicts involved in such investment activity. Torchlight's COE is designed to seek assurance that all persons covered by the COE and, in particular, Torchlight's investment personnel and other employees having access to client holdings or trading information:

- Act with integrity, competence, diligence, respect, and in an ethical manner in all dealings with the public, clients, prospective clients, their colleagues in the investment profession, and other participants in the global capital markets; and
- Comply at all times with applicable provisions of the federal securities laws.

The COE also establishes specific requirements as to the conduct of personal trading activities (which often includes trading on the part of certain family members of covered persons). Among other matters, the COE requires 1) pre-clearance of certain personal securities transactions, 2) reporting of certain personal securities transactions on at least a quarterly basis, and 3) reporting of certain holdings and securities accounts on at least an annual basis.

Transactions are monitored by Torchlight's compliance personnel, and violations are subject to various sanctions, which may include termination of employment.

While the COE establishes specific conduct standards, it is the intent of the COE that all persons covered by it will adhere to it both in letter and in spirit. A copy of the COE is available to any client or prospective client upon request.

#### **Item 12: Brokerage Practices**

Torchlight generally trades debt instruments for clients under a "bid/ask" spread, so there are generally no commissions or soft dollars paid to brokers and dealers.

Torchlight may determine the brokers and dealers to be used, and the commission rates, if any, to be paid, without specific client consent. Torchlight will exercise its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best available price and most favorable execution. Best available price and most favorable execution is generally considered to mean a policy of executing portfolio transactions at prices and, if applicable, commissions which provide the most favorable total cost or proceeds reasonably obtainable under the circumstances.

The full range of brokerage services and capabilities applicable to a particular transaction will be considered when making this judgment. Such brokerage services may include, but are not limited to: (i) general execution capability; (ii) commission or other compensation rates; (iii) operational capability to clear and settle transactions; (iv) historical trading experience in the security; (v) integrity of personnel; (vi) quality of research and brokerage services and products; (vii) financial strength and stability; (viii) access to the markets for the security being traded; and (ix) access to new investment opportunities. Although the applicability of specific criteria may vary depending upon the nature of the transaction, the market in which it is affected, and the extent to which it is possible to select from among multiple broker-dealers capable of effecting the transaction, Torchlight commonly selects a broker-dealer based primarily upon the price of securities to be bought or sold from the broker-dealer.

Torchlight will not make commitments to any broker-dealer that would bind Torchlight to compensate that broker-dealer, directly or indirectly, for client referrals. However, subject to applicable law, in determining whether to enter into any agreement with a broker, Torchlight may consider any past referral by such broker of the particular client for whom the transaction is being executed, or of other clients, or in recognition of possible future referrals from the broker. In doing so, unless otherwise specifically disclosed to the client, Torchlight seeks to obtain execution of the same quality as would otherwise be obtainable from broker-dealers that do not provide client referrals to Torchlight.

Torchlight may from time to time follow the practice of "bunching" the orders of various clients for execution, which may result in a better price or lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating client's proportionate share of such order will reflect the average price paid or received with respect to the total order placed on that day. Trade orders on behalf of clients may be aggregated (or "bunched") with those of other clients and those of Torchlight or certain of its affiliates. Appropriate aggregation and allocation procedures are maintained.

#### **Item 13: Review of Accounts**

Torchlight periodically monitors portfolios created for clients by performing supervisory management functions which may include, but are not limited to, the following: determining the desirability of an investment for a client, recommending relationships and/or hiring attorneys, auditors, custodians and other third party service providers, monitoring the portfolio for potential changes in credit quality, reviewing reports supplied by third parties with respect to the investments, monitoring general market conditions, and preparing all necessary reports and documents which may be required by the contractual arrangements with clients. Given the fluid nature of financial markets and the continuous flow of information available to portfolio managers, the account review process may be continuous or as needed, in the view of Torchlight under the circumstances. However, time demands associated with individual accounts will vary, sometimes significantly.

Generally, portfolios are monitored by investment professionals such as analysts and portfolio managers. Such reviews are generally overseen by the Investment Committee of Torchlight.

Content of regular reports that are provided to clients regarding their accounts include portfolio information, account values, performance detail, updates on the firm, updates on market conditions, and other financial information regarding their accounts. Generally, regular reports are provided either monthly or quarterly. Certain clients may ask for specific analysis or reports which are provided on an ad-hoc basis. Reports are generally written, but could also include oral reports, for example when Torchlight provides clients with one on one presentations and account updates.

#### **Item 14: Client Referrals and Other Compensation**

Torchlight from time to time engages solicitors to introduce prospective qualified investors. Torchlight will generally engage solicitors that are registered with the SEC as a broker-dealer, but may engage other solicitors consistent with applicable law. Solicitors are typically paid a percentage of fixed management fees earned by Torchlight from investors introduced by the solicitor, but may be paid pursuant to another arrangement. The fee arrangement and terms are described in an agreement with each solicitor and varies according to the investment strategy in which the investor invests. These fee arrangements, and relevant conflicts of interest, are disclosed to the investors introduced by a solicitor.

Investors should be aware that these fee arrangements create an economic incentive for a solicitor to more favorably consider Torchlight and its services relative to other investment advisers either not making these payments or making smaller such payments.

#### **Item 15: Custody**

Each separate account client of Torchlight receives a statement, at least quarterly, from the account's custodian setting out the holdings and transactions in the account. In addition, clients may be provided with account statements prepared by Torchlight and they should compare the account statements they receive from Torchlight with the account statements received from custodians or administrators. Investors in investment funds managed by Torchlight receive periodic statements of their capital accounts.

Torchlight is deemed to have custody of the assets of private funds as to which it or its affiliates acts as general partner or in a similar capacity pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Advisers Act"). Torchlight seeks to adhere to the "custody rule" by delivering audited financial statements to investors in such private funds within 120 days of fiscal year end.

#### **Item 16: Investment Discretion**

With respect to discretionary accounts, Torchlight generally has authority to purchase and sell securities in any amount (up to the balance of a client's account) without obtaining specific client consent. A non-discretionary account may be established at a client's request, which would give the client the ability to direct Torchlight not to effect a particular trade that Torchlight recommends. In addition, whether an account is discretionary or non-discretionary, a client could direct Torchlight to effect a transaction even in cases where Torchlight recommended against, or had no opinion about, the transaction.

When Torchlight enters into a discretionary relationship, the limitations on Torchlight's authority are generally expressed in the investment management agreement. Usually these limitations relate to size, structural or geographic factors with respect to investments.

#### **Item 17: Voting Client Securities**

In compliance with Rule 206(4)-6 under the Advisers Act Torchlight has adopted and implemented written policies and procedures reasonably designed to assure that if it is necessary for Torchlight to vote the securities of any client it

will do so in the best interests of such client. In voting securities by proxy for its clients, Torchlight shall vote in a manner that Torchlight determines, in its discretion, is in the best interest of the clients and consistent with Torchlight's duty of care and loyalty to its clients. Torchlight will generally vote for proposals that it believes maximize the value of the security. The factors considered by Torchlight will vary from security to security and from client to client, and may include market information, liquidity, the debtor's financial situation, the industry, and the client's investment guidelines. Torchlight will also follow any voting guidelines that have been expressly agreed upon in the client's advisory contract.

Torchlight will seek to address conflicts between its interests and those of its clients or between its clients by a committee to include Torchlight's Chief Credit Officer, Chief Compliance Officer, and the portfolio manager. (If Torchlight determines there is no conflict of interest, the proxy will be voted by the portfolio manager.) Clients may also obtain a copy of proxy voting policies and procedures upon request.

#### **Item 18: Financial Information**

Torchlight has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.