



Form ADV Part 2

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475 Fifth Avenue

New York, NY 10017

212-883-2800

www.torchlightinvestors.com

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

Item 2: Material Changes

Torchlight Investors, LLC, (“Torchlight”) routinely makes changes throughout its Brochure in an effort to improve and clarify the descriptions of its and its affiliates’ business practices and compliance policies and procedures or in response to evolving industry and firm practices. Torchlight does not believe that the changes it has made to its prior year’s Brochure are material and does not describe them in this Item 2.

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 49 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 directly) is Torchlight Holdings, LLC. Daniel Heflin, the Chief Executive Officer and Co-Chief Investment Officer of Torchlight, is the only principal owner and owns more than 25% of the firm indirectly.

Torchlight provides investment management and advisory services relating primarily to commercial real estate related investments (primarily debt instruments), including but not limited to, commercial mortgage backed securities (“CMBS”), commercial real estate loans, and subordinated interests including mezzanine investments, preferred equity and equity. In providing these services, Torchlight determines when and which investments 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 and divestment opportunities available at the particular time.

Torchlight provides discretionary investment advice to private investment funds (“Torchlight Funds”) and separately managed accounts of institutional clients (together, “Torchlight Advisory Clients”), and provides non-discretionary services as collateral manager to issuers of collateralized debt obligations (“CDOs”). Torchlight provides discretionary advisory services to each Torchlight Advisory Client pursuant to a written agreement (as well as a limited partnership agreement and other governing documents for each Torchlight Fund) that specifies various terms of the engagement, such as investment objectives, investment restrictions, compensation and termination (in each case, the “Governing Agreements”).

Torchlight managed \$3,302,514,308 on a discretionary basis and \$631,518,074 on a non-discretionary basis as of December 31, 2017.

Item 5: Fees and Compensation

Investment Management Fees

Torchlight is compensated for advisory services by each Torchlight Advisory Client at the fee rates specified in the relevant Governing Agreements. The amount, timing and other terms relating to compensation are often negotiated by Torchlight with Torchlight Advisory Clients or investors in Torchlight Funds, and may vary significantly among Torchlight Advisory Clients and investors. Torchlight charges fixed rate management fees for its investment management services at an annual fee of up to 2% of assets under management or committed capital. Fees may either be deducted from a Torchlight Advisory Client’s account or separately billed to the client, and are payable on a quarterly or monthly basis in advance or in arrears. Torchlight may also receive performance fees. Upon termination, any unearned portion of prepaid fees may be refunded to the Torchlight Advisory Client. Performance fees are described in Item 6.

Special Servicing

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, CDOs). The role and responsibilities of a special servicer are typically defined in a Pooling and Servicing Agreement (“PSA”) for each such issuer. In most cases, Torchlight Advisory Clients hold indirect interests in mortgage loans serviced by TLS by virtue of holding CMBS of the relevant issuer. As part of their investment strategy, certain Torchlight Funds (in particular, funds in the Debt Opportunity series) will acquire classes of CMBS (typically the most subordinate class, referred to as the “controlling class”) that, pursuant to the relevant PSA, carry the right to appoint the special servicer of 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 either such case Torchlight expects to exercise that right on behalf of the Torchlight Advisory Client to appoint TLS as special servicer of the relevant issuer (except in cases in which the PSA does not permit the holder of the controlling class to appoint an affiliate as special servicer).

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 performing related administrative services.

Torchlight earns indirectly additional compensation in respect of its advisory relationships when Torchlight, on behalf of a Torchlight Advisory Client that owns the controlling class of a CMBS or CDO issuer, appoints TLS or Torchlight (or CMLLC) as special servicer or collateral manager of the issuer, thereby enabling or Torchlight (or CMLLC) to earn special servicing or collateral management fees from such issuers. 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.

As special servicer, TLS is entitled to receive certain fees that are specified in the governing PSA (including periodic fees that are a percentage of the principal amount of loans in special servicing and liquidation fees that are earned a percentage of the proceeds derived from the disposition of a loan or other asset that is disposed of by the special servicer) 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 specified in a loan agreement). The special servicer does not have discretion to vary the amount of the fees that are determined pursuant to the PSA, and such fees are payable by the issuer to the special servicer in accordance with priorities established by the PSA. PSAs permit the special servicer to negotiate fees to be paid by borrowers, but PSAs do not specify how such fees are to be calculated and, because they are payable by the borrower, they are payable without regard to priorities specified in the PSA. Recent PSAs do require that “work-out” fees otherwise payable under the PSA be offset by borrow-paid fees, and some PSAs cap the amount of borrower-paid fees. TLS endeavors to negotiate borrower-paid fees that are 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 market rates, Torchlight considers the aggregate fee paid by borrowers in similar circumstances regardless of whether a special servicer has agreed to share such fees with another party). TLS, Torchlight or CMLLC, as the case may be, may continue to act as special servicer or collateral manager to, and to earn fees from, CMBS and CDO issuers in which the Torchlight Fund has acquired securities and facilitated the appointment after such securities have been disposed of by the Torchlight Fund. 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 Torchlight Funds, appoints TLS as special servicer, because TLS does not share fees with Torchlight Funds when Torchlight Funds own the controlling class (as discussed below).

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 Funds, 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 Funds in consideration of being appointed as special servicer. As noted above, Torchlight will not enter into fee sharing arrangements on behalf of Torchlight Funds with unaffiliated third parties or with TLS in which a portion of special servicing fees would be paid to Torchlight Funds, even though amounts received from such arrangements could be material in comparison to the returns to the Torchlight Funds on the related CMBS. Instead, Torchlight expects to appoint TLS and that TLS will retain the full amount of fees payable under the relevant PSA. It is not possible to

accurately predict how much TLS will earn in special servicing fees from any particular CMBS transaction, as the amount of fees will depend on numerous factors related to the particular loans in the transaction (such as the terms of the loan agreements, the characteristics of the collateral underlying the loans, and characteristics of the borrowers) as well as the economic conditions that prevail locally and nationally. As an illustration (and not a projection), if we assumed that a Torchlight Fund purchased the controlling class in a \$1.3 billion CMBS transaction in 2018 for \$36 million, under Torchlight's base case economic scenario TLS could earn between \$2.5 million and \$3 million in special servicing fees from the transaction through 2029. If TLS were to share 50% of such fees (other than certain periodic fees which are usually not shared) with a Torchlight Fund, the Torchlight Fund would receive approximately \$1.2 million. These estimates are based upon various assumptions, and special servicing fees could be materially higher than these estimates under a base case economic scenario. If economic conditions proved to be materially worse than Torchlight's base case scenario, the special servicing fees, and the amounts received by the Torchlight Fund, would be materially higher. In addition, each CMBS transaction is collateralized by a unique pool of loans, and the default rates (and hence special servicing fees) can vary significantly among CMBS transactions of the same vintage.

The investment strategy of Torchlight Funds (in particular, the Debt Opportunity series) includes purchasing the controlling class of CMBS issuers at initial issuance on an opportunistic basis. In any such case, Torchlight will have some ability to negotiate certain terms in the governing PSA with the CMBS sponsor, including the fee schedule that will determine the fees payable by the issuer to the special servicer (which is expected to be TLS). Accordingly, Torchlight faces a conflict of interest in negotiating special servicing fees, since higher fee rates will likely result in greater revenue to TLS but may also reduce the amount that is ultimately distributed by the issuer to the Torchlight Fund. When negotiating a PSA, Torchlight endeavors to negotiate special servicing fees that are within the range of prevailing rates for recent CMBS issuances as specified in PSAs, but Torchlight does not attempt to negotiate 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 fee (as specified in the PSA). The fees paid to TLS for performing this function is commensurate with fees paid to special servicers in other PSAs for performing a similar function. Torchlight should be considered as earning additional advisory compensation in transactions in which a Torchlight Fund purchases the controlling class and TLS earns special servicing fees or Directing Certificateholder Servicing Consultant fees.

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 Funds 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 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.

Other Client Expense

Each Torchlight Advisory Client is responsible for the costs and expenses of its operations, as outlined in the Governing Agreements of the particular Torchlight Advisory Client ("Operating Expenses"). While the types of expenses incurred by Torchlight Advisory Clients vary, Operating Expenses of Torchlight Funds will generally include (i) expenses relating to the investigation, acquisition, disposition and review of investments (whether or not consummated), including, without limitation, the fees of service providers in connection with the conduct of due diligence (including credit analysis and preliminary screening), (ii) fees of service providers rendering property level asset management services or maintenance services for investments and underlying real estate, (iii) sales commissions to any third party and third party fees, commitment fees and any other costs and expenses incurred in the purchase and sale of investments, (iv) costs related to the operation and administration of the Torchlight Fund, including the management fees, fees and

expenses of custodians and trustees, administrators, attorneys and accountants, auditors and tax return preparers, expense related to preparation of reports to investors, expenses incurred in connection with the annual and other meetings with investors and investor advisory committees (including the reasonable cost of space, travel, services, on-site meals, outside speakers, and purchase or production of materials distributed), the cost of errors and omissions and directors and officers liability insurance, litigation expense, and the cost of regulatory filings and compliance (including Form PF), taxes, costs incurred by, or in connection with, governmental or other regulatory investigations or actions, (iv) amounts payable in connection with any credit facilities or structured financing arrangements, including, but not limited to, interest expense, commitment and renewal fees, fees for pricing services and systems, and underwriting and other fees relating to the placement of debt. Brokerage and transaction related costs are explained in greater detail in Item 12. Operating Expense does not include compensation of Torchlight employees (as opposed to consultants) and routine overhead expenses of Torchlight (such as rent and utilities). Torchlight Funds reimburse Torchlight and its affiliates for any Operating Expenses they incur on behalf of Torchlight Funds.

Appointment of Service Providers

Torchlight is responsible for appointing service providers for Torchlight Funds and for negotiating the fees to be paid by Torchlight Funds for such services. Torchlight may engage consultants on behalf of Torchlight Funds to provide services the cost of which will constitute Operating Expense. Such consultants may be engaged on a temporary or long-term basis, and on an exclusive or non-exclusive basis, and such consultants may work from Torchlight offices. Services provided by such consultants may include, without limitation, due diligence or asset management services, provided that consultants are not engaged to provide investment advice to Torchlight Funds.

Torchlight may from time to time incur fees, costs and expenses on behalf of more than one Torchlight Fund, or on behalf of Torchlight and one or more Torchlight Funds. In such cases, each Torchlight Fund (and Torchlight, if applicable) will typically bear an allocable portion of any such fees, costs, and expenses generally in proportion to the size of its investment in the activity or entity to which the expense is attributable, or in such other manner that Torchlight considers fair and equitable under the particular circumstances. For example, Torchlight allocates the cost of premiums with respect to Torchlight's group professional liability insurance policy among all Torchlight Funds covered under such policy and itself based on the relative, estimated benefit derived from the insurance by each such Torchlight Fund and Torchlight.

Torchlight may engage the same service provider to provide services to a Torchlight Fund that also provides services to Torchlight or its affiliates, which creates a potential conflict of interest to the extent the interests of such parties are not aligned. In particular, law firms may at the same time act as legal counsel to both Torchlight Funds and Torchlight and its affiliates. For example, Torchlight's chief compliance officer also provides legal services to Torchlight and Torchlight Funds. Torchlight addresses such potential conflicts of interest by monitoring the quality of legal services (and the cost thereof) provided to Torchlight Funds, and Torchlight will retain alternative counsel for a Torchlight Fund if Torchlight concludes that a matter entails the potential for a material conflict of interest on the part of the attorney involved.

Torchlight may appoint third parties or its affiliates to provide services to Torchlight Funds (subject in each case to the Governing Agreements of the particular Torchlight Fund). 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, and disclosed in annual financial statements of the particular Torchlight Fund.

Item 6: Performance Based Fees and Side by Side Management

Torchlight and its affiliates may receive performance-based compensation (i.e., carried interest distributions or performance fees). In most Torchlight Funds, a percentage of amounts otherwise distributable to an investor (typically 20%), after the investor has received cumulative distributions equal to its cumulative capital contributions, will be distributed as carried interest to an affiliate of Torchlight (in its capacity as the general partner or managing member of the Torchlight Fund). Carried interest distributions may be subject to certain preferred return hurdles and catch-up

allocations. The manner of calculating carried interest is specified in the Governing Documents of the particular Torchlight Fund. Torchlight may sponsor funds in the future, or enter into agreements for separately managed accounts, that pay performance fees as a percentage of increases in net asset value (i.e., based upon both realized and unrealized appreciation and depreciation).

The Governing Documents of the Torchlight Funds generally require that the general partner or managing member return excess carried interest distributions at the end of the term of the Torchlight Fund if the general partner or managing member has received with respect to any investor carried interest distributions in excess of amount that would be due if all distributions and contributions over the life of the Torchlight Fund were taken into account in the aggregate. However, because the obligation to return carried interest is typically reduced by taxes payable on the excess carried interest, investors may ultimately receive less than their full percentage of distributions as specified in the Governing Documents.

Performance-based compensation may create an incentive for Torchlight to make investments that are riskier or more speculative than would be the case absent such an arrangement. Performance-based compensation may also create an incentive for Torchlight to allocate investment opportunities to Torchlight Funds that pay carried interest at a higher rate than other Torchlight Funds, or to Torchlight Funds that do not have to recover prior losses before distributing carried interest. Torchlight has adopted and implemented policies and procedures designed to mitigate these conflicts. Such procedures are designed to seek the fair and equitable allocation of investment opportunities among Torchlight Advisory Clients over time.

Pursuant to the Torchlight investment allocation policy, investment opportunities that are appropriate for more than one Torchlight Fund and that Torchlight determines would present a potential for conflict of interest between funds if they were to co-invest (primarily investments that entail present or potential control rights, such as privately negotiated investments or Subordinate CMBS) ("Rotated Opportunities") are rotated between Torchlight Funds, and investment opportunities that Torchlight determines are appropriate for more than one Torchlight Fund and do not present a potential for a conflict of interest, such as more senior classes of CMBS, are allocated between funds. Whether an investment opportunity is allocated to a Torchlight Fund, and the amount allocated, will be subject to various considerations with respect to the fund, such as the amount of capital available to the fund for investment, the remaining term of the fund, and the impact of the investment on the diversification of the fund's portfolio.

Torchlight will incur expense in investigating, evaluating and underwriting potential Rotated Opportunities without necessarily knowing at the time the expense is incurred which Torchlight Fund will be allocated the investment if it is consummated. This is because Torchlight is typically evaluating a number of potential Rotated Opportunities at any one time, and may not know which Torchlight Fund an opportunity will be allocated to until close to the time that Torchlight makes a firm commitment to the investment. If Torchlight decides not to pursue a potential Rotated Opportunity before Torchlight has allocated the opportunity to a Torchlight Fund, the related broken-deal expenses will be divided evenly between the Torchlight Funds to which the opportunity could have been allocated. If Torchlight decides not to pursue a potential Rotated Opportunity after the investment has been allocated to a single Torchlight Fund, the related broken-deal expenses will be allocated to the Torchlight Fund to which the opportunity has been allocated.

Item 7: Types of Clients

Torchlight provides advisory services primarily to closed-ended, private investment funds that are exempt from registration under the Investment Company Act of 1940 (the "ICA") and the Securities Act of 1933 (the "Securities Act"). The great majority of investors in Torchlight Funds are institutional, including public and private pension plans, insurance companies, multi-national organizations, foundations or other charitable organizations, and business organizations. The minimum capital commitment for an investor in a Torchlight Fund is typically \$10 million (which Torchlight may waive at its discretion). In general, an investor in a Torchlight Fund is required to be both an "accredited investor" as defined in Regulation D under the Securities Act and a "qualified purchaser" as defined in the 1940 Act.

Torchlight will also manage separate accounts for institutional investors. The minimum size for a separate account will be negotiated on a case-by case basis, but Torchlight typically requires a commitment from the client of \$20 million to \$100 million depending upon the strategy for the account.

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, and 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 its 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, and 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 to pay amounts due to 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 effect 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

Torchlight Loan Services, LLC ("TLS") is a special servicer, primarily to CMBS issuers. Torchlight Advisory Clients from time to time have the ability to appoint the special servicer to a CMBS issuer by virtue of owning the "controlling class" of the issuer. In those circumstances, Torchlight faces a conflict of interest in determining whether to appoint TLS on behalf of the Torchlight Advisory Client as Torchlight will receive a financial benefit from the fees TLS receives as special servicer. As a general matter, Torchlight expects to appoint TLS as special servicer on behalf of Torchlight Advisory Clients when it has the authority to do so. In addition, TLS does not share servicing fees with Torchlight Funds that appoint TLS as special servicer, notwithstanding that the practice has become relatively common for special servicers when they are appointed by third parties. See Item 5 for a detailed discussion of TLS' services and compensation and related conflicts of interest.

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

Torchlight may face a conflict of interest in allocating investment opportunities among Torchlight Funds and other Torchlight Advisory Clients. Torchlight seeks to address these conflicts by having established policies and procedures for allocating securities transactions and other investment opportunities. Such procedures are designed to provide for a fair and equitable allocation of securities transactions and other investment opportunities among Torchlight Advisory Clients over time. In particular, such procedures provide that publicly-traded securities will be allocated among

Torchlight Advisory Clients that have “appetite” for the security on a pro rata basis subject to considerations such as available capital, diversification, and size of the clients’ portfolios. For privately-negotiated investments (such as privately negotiated loans) that would entail a potential for conflict of interest between co-investors, Torchlight will allocate opportunities between Torchlight Advisory Clients that have appetite for such investments on the basis of equitable rotation, taking into account such factors as diversification, available capital, and any existing relationship between the Torchlight Advisory Client and the borrower.

Torchlight Advisory Clients always have priority over Torchlight proprietary accounts in the allocation of investment opportunities.

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 Torchlight Advisory 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 allocation procedures for securities transactions. Such procedures are designed to provide for a fair and equitable allocation of securities transactions among Torchlight Advisory Clients, and to place the interests of Torchlight Advisory Clients ahead of the interests of Torchlight and its personnel when trading securities.

Torchlight and its principals or employees and other affiliates invest in funds managed by Torchlight for third-party investors (“Torchlight Funds”) and therefore have direct financial interests in such funds. Torchlight Funds are treated without preference as clients of Torchlight. From time to time, Torchlight and its principals or employees and other affiliates may purchase, sell or hold positions in securities recommended to Torchlight Advisory 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 a quarterly basis, and 3) reporting of certain holdings and securities accounts on 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 or investor upon request.

Item 12: Brokerage Practices

Torchlight generally trades debt instruments for Torchlight Advisory 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.

Item 13: Review of Accounts

Torchlight periodically monitors portfolios created for Torchlight Advisory 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 Torchlight Advisory Clients and investors in Torchlight Funds 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 or investors 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 or investors 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 vary 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, such 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 Torchlight Funds 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 has authority to purchase and sell investments in the 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, in the case of a separately managed account (whether not the account is discretionary), the client could direct Torchlight to effect a transaction regardless of whether Torchlight recommended against, or had no opinion about, the transaction.

When Torchlight enters into a discretionary relationship, Torchlight typically agrees to limitations on Torchlight's authority, which are set out in the relevant Governing Agreements. Usually these limitations relate to size, nature, and diversification of 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 Governing Agreements. Clients and investors may obtain a copy of Torchlight's 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.

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