

CLNC Manager, LLC

Form ADV, Part 2A

BROCHURE

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This brochure (“Brochure”) provides information about the qualifications and business practices of CLNC Manager, LLC (“CLNC Manager” or “Manager”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer (the “CCO”).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

The Manager is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. Additional information about the Manager is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Material Changes

CLNC's last annual Part 2A on Form ADV was filed on March 27, 2018. This other-than-annual amendment reflects the name change of Colony NorthStar, Inc. to Colony Capital, Inc. and additions to our relying advisors and financial industry affiliations.

This Brochure also includes certain other routine updates and additional information. This Item 2 reflects only material changes made since the March 27, 2018 annual amendment. It is important that you read this entire Brochure, including the updates, to fully understand the disclosures made herein.

IMPORTANT NOTE ABOUT THIS BROCHURE

This Brochure is not:

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

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

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

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

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Item 4: Advisory Business

Colony Capital

CLNC Manager, LLC (“CLNC Manager” or “Manager”) is a Delaware limited liability company and an indirect subsidiary of Colony Capital, Inc. (NYSE: CLNY) (“Colony Capital”), a global real estate and investment management firm publicly-traded on the New York Stock Exchange. Thomas J. Barrack, Jr. is the Executive Chairman of Colony Capital, and Richard B. Saltzman is the President and Chief Executive Officer of Colony Capital.

Colony Capital’s Investment Management Businesses

The Manager

The Manager is an indirect subsidiary of Colony Capital whose advisory business primarily consists of advising the Company, as well as other potential companies, funds and accounts that may be sponsored or co-sponsored by Manager or Colony Capital or otherwise advised by Manager in the future (“Clients”).

As of December 31, 2017, pro forma for the Merger, the Manager managed approximately \$8,153,319,000 in client assets on a discretionary basis and \$0 in client assets on a non-discretionary basis. Assets under management are calculated and presented in this Brochure according to the requirements of the Advisers Act and may differ from the calculation and presentation of assets for purposes of other disclosures made by Colony Capital or Clients.

Affiliated Advisers

The Manager and the Affiliated Advisers (defined below) generally have common policies and procedures with respect to their clients, share senior management teams and key personnel. The advisory business of the Affiliated Advisers consists of advising (i) private investment funds and co-investment vehicles (the “Managed Funds”), (ii) public REITs that are either traded on a national securities exchange or non-listed and sold through independent broker dealer channels (the “Managed REITs”), and/or (iii) closed-end management investment companies registered under the Investment Company Act of 1940, as amended (“Investment Company Act”). The investment strategies of the Managed Vehicles are generally focused on making direct investments in real estate and real estate-related assets, debt and distressed debt investments.

Each Affiliated Adviser is a separate and distinct company that may have differing investment capabilities and functions, but the Affiliated Advisers work collaboratively to provide advice and services to Clients. The Affiliated Advisers of the Managed REITs and the registered investment companies have separate registrations with the SEC and the Affiliated Advisers of the Managed REITs have separate brochures. Clients of the Managed REITs should refer to the brochure for the applicable Affiliated Adviser.

The Affiliated Advisers include, but are not limited to: Colony Capital Investment Advisors, LLC (Delaware), Col Invest Italy S.R.L. (Italy), Colony Capital Advisors, LLC (Delaware), Colony Realty Partners, LLC (Delaware), CDCF IV Investment Advisor, LLC (Delaware), Colony Industrial Investment Advisor, LLC (Delaware), CLNC Manager, LLC (Delaware), CNI NSHC Advisors, LLC (Delaware), CNI NS/RXR Advisors, LLC (Delaware), CNI NRE Advisors, LLC (Delaware), CNI FCVP Advisors, LLC (Delaware), Colony Capital – N Luxembourg S.à r.l. (Luxembourg), Colony Capital Luxembourg S.à r.l. (Luxembourg), Colony Capital UK, Ltd. (United Kingdom), Colony Capital SAS (France), CNI One Cal Plaza Investment Advisor, LLC (Delaware), CNI Century Plaza Advisor, LLC (Delaware), CNI RECF Advisors, LLC (Delaware) and CNI TCEF Advisors, LLC (Delaware). Further information about the advisory businesses of these affiliates can be found in the public disclosures on Form ADV for those firms.

Other Affiliates

Certain other affiliates of the Manager and Colony Capital provide investment advisory and related services and may have separate registrations with the SEC. These other registered affiliates do not have common policies and procedures but may share certain management teams or personnel with the Manager and the Affiliated Advisers but are treated as separate and distinct companies and SEC registrants. These advisers may offer a variety of investment strategies and services to a number of different clients. These separate registered investment adviser affiliates and certain exempt reporting advisers include (i) Digital Colony Management, LLC (Delaware) and DCP Fund I Adviser, LLC (Delaware); (ii) Colyzeo Investment Management Limited (United Kingdom) and Colyzeo Investment Advisors Limited (United Kingdom); and (iii) CapCol Management, LLC (Delaware). Further information about the advisory businesses of these other affiliates can be found in the public disclosures on Form ADV for those firms.

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

The Company

The primary business objective of the Manager is to provide asset management and other services to Colony Credit Real Estate, Inc., a Maryland corporation (the “Company”), which is a publicly traded company that intends to qualify as a REIT under the U.S. Internal Revenue Code of 1986, as amended. The Company is a newly organized Maryland corporation focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of commercial real estate (“CRE”) senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties predominantly in the United States. The Manager will provide its advisory services subject to the oversight of the board directors of the Company, pursuant to a management agreement, and in accordance with the investment objectives, strategies and guidelines approved by the Company’s board. The Company is listed on the NYSE (Symbol: CLNC) and is a combination of assets originally owned by Colony Capital through its operating subsidiary, Colony Capital Operating Company LLC, and NorthStar Real Estate Income Trust, Inc. (“NorthStar I”), and NorthStar Real Estate Income II, Inc. (“NorthStar II”).

A Note about these Managed Vehicle Disclosures

Investors and other recipients of this Brochure should be aware that while this Brochure may include information about a Managed Vehicle, including the Company, as necessary or appropriate, the Brochure should not be considered to represent a complete discussion of the features, risks or conflicts associated with any Managed Vehicle. More complete information about a Managed Vehicle is included in the respective Managed Vehicle’s Governing Documents, which may be included in the Company’s public filings or may be provided to current and eligible prospective investors only by the Company or another authorized party. In no event should this Brochure be considered to be an offer of interests in the Company or any other Client or relied upon in any determination to invest in the Company or any Client. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure. Rather, this Brochure is designed to provide information about Manager for the purpose of compliance with Manager’s obligations under the Advisers Act. Accordingly, the Brochure responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in the Company’s Governing Documents. To the extent that there is any conflict between discussions herein and similar or related discussions in any Governing Document, the relevant Governing Document shall govern.

Manager's Advisory Services to the Company

Subject to the oversight of the board of directors, of which a majority of the members will be independent, of the Company and other limited exceptions, the Manager will manage the day-to-day operations of the Company and its subsidiaries. The Manager will be responsible for the operations identified in its management agreement with the Company, including, among others, (i) serving as the Company's and its subsidiaries' consultant with respect to the periodic review of the investment guidelines, approved by a majority of the Company's independent directors, and other parameters for the Company investments, financing activities and operations; (ii) identifying, investigating, analyzing and selecting possible investment opportunities and acquiring, negotiating, monitoring, financing, retaining, selling, restructuring or disposing of investments consistent with the Company's investment guidelines; (iii) conducting negotiations on behalf of the Company and its subsidiaries with sellers, purchasers, trustees, primary dealers, custodians and brokers and, if applicable, their respective agents and representatives; (iv) negotiating and entering into, on behalf of the Company and its subsidiaries, bank credit facilities, repurchase agreements, interest rate swap agreements, agreements relating to borrowings under programs established by the U.S. Government and/or any agencies thereunder and other agreements and instruments required for the Company and its subsidiaries to conduct their business. The Manager earns base management and other fees for these services, which may vary based on the amount of stockholders' equity and investment performance. As a general matter, the Company is managed in accordance with the investment objectives, strategies and guidelines approved by the Company's board of directors or otherwise set forth in its Governing Documents and is not tailored to the individual needs of any particular investor.

Colony Capital, the Manager or the Company also may establish and/or sponsor strategic arrangements and partnerships, directly or on behalf of the Company.

The Manager does not currently offer wrap fee programs.

Item 5: Fees and Compensation

Fees are separately determined for each client. As a general matter, the Manager and its affiliates receive (i) management and incentive fees pursuant to advisory contracts and other agreements with clients; and (ii) other fees and expense reimbursements, as described in more detail below.

Management and Incentive Fees

The Company

The Company's management agreement with the Manager ("Management Agreement"), and the Company's subsidiary, Credit RE Operating Company, LLC ("Operating Company") provides for both an annual base management fee and an incentive fee. The annual base management fee, calculated and payable quarterly in arrears in cash, is equal to:

- one and one-half percent (1.50%) of "Stockholders' Equity" per annum, calculated and payable quarterly in arrears in cash.

"Stockholders' Equity" means

- the sum of:
 - the net proceeds received by the Company (or, without duplication, the Company's direct subsidiaries, such as Operating Company) from all issuances of the Company's or such

subsidiaries' common and preferred equity securities since inception (allocated on a pro rata daily basis for such issuances during the calendar quarter of any such issuance); plus

- cumulative “core earnings” (as defined in the Management Agreement) from and after the effective date of the Management Agreement to the end of the most recently completed calendar quarter,
- less:
 - any distributions to the Company's common stockholders (or owners of common equity of the Company's direct subsidiaries, such as Operating Company) (other than the Company or any of such subsidiaries);
 - any amount that the Company or any of the Company's direct subsidiaries (such as Operating Company) has paid to (1) repurchase for cash the common stock or common equity securities of such subsidiaries or (2) repurchase or redeem for cash preferred equity securities of the Company or such subsidiaries, in each case since the effective date of the Management Agreement; and
 - any incentive fee (discussed below) paid to the Manager following the effective date of the Management Agreement.

Incentive fees, calculated and payable quarterly in arrears in cash in an amount, not less than zero, equal to the difference between:

- the product of (a) twenty percent (20%) and (b) the difference between (1) “core earnings” (as defined in the Management Agreement) for the most recent twelve (12)-month period (or if the effective date is less than twelve (12) months earlier, since the effective date), including the current quarter, and (2) the product of (A) the common equity in the most recent twelve (12)-month period (or if the effective date is less than twelve (12) months earlier, since the effective date), including the current quarter, and (B) seven percent (7%) per annum, and
- the sum of any incentive fee paid to the Manager with respect to the first three (3) calendar quarters of the most recent twelve (12)-month period (or if the effective date is less than twelve (12) months earlier, since the effective date);

provided, however, that no incentive fee shall be payable with respect to any calendar quarter unless core earnings is greater than zero for the most recently completed twelve (12) calendar quarters (or if the effective date is less than twelve (12) calendar quarters earlier, since the effective date).

For purposes of calculating the incentive fee prior to the completion of a twelve (12)-month period during the term of the Management Agreement, core earnings shall be calculated on the basis of the number of days that the Management Agreement has been in effect on an annualized basis.

If the effective termination date of the Management Agreement does not correspond to the end of a calendar quarter, the Manager's incentive fee shall be calculated for the period beginning on the day after the end of the calendar quarter immediately preceding the effective termination date of the Management Agreement and ending on the effective termination date of the Management Agreement, which incentive fee shall be calculated using core earnings for the twelve (12)-month period ending on the effective termination date.

Other Fees and Expense Reimbursements

Expense Reimbursements

Reimbursement of expenses related to the Company incurred by the Manager, including legal, accounting, financial, due diligence and other services will be paid on the Company's behalf by the Operating Company or its designee(s). The Operating Company will reimburse the Manager for the Company's allocable share of the salaries, bonus, any related withholding taxes and employee benefits of the Company's chief financial officer and certain of its affiliates' non-investment personnel who spend all or a portion of their time managing the Company's affairs, and the Company's share of such costs will be based upon the percentage of such time devoted by personnel of the Manager (or its affiliates) to the Company's affairs. The Operating Company may or will be required to pay the Company's pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its affiliates required for the Company's operations.

Termination Fee

Upon termination of the management agreement by the Company without cause or by the Manager if the Company materially breaches the management agreement, the Company will owe the Manager a termination fee equal to three times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case earned by the Manager during the 24-month period immediately preceding such termination, calculated as of the end of the most recently completed calendar quarter before the date of termination.

Fees Related to Special Servicing

One or more affiliates of Colony Capital may from time to time act as a special servicer with respect to CMBS held by the Company, for which it is paid special servicing and related fees by the securitization vehicle. In certain instances, the Company may own the first loss position in a securitization vehicle and thus have the right to appoint the special servicer, which may create a conflict of interest and favor the appointment of an affiliate as special servicer.

Fees Related to Property Management

Colony Capital and the Company may also engage third-party or affiliated managers in connection with asset management, property management or related services for certain of their owned real estate. In certain instances, the Company also may invest in third-party managed real estate funds or other pooled investment vehicles that pay management and incentive fees/promotes to the fund manager or general partner. In any such instances, the Company may pay fees to such third party or affiliated parties in addition to the fees paid to Manager (subjecting investors in the Company to so-called "layering of fees"). Fees paid to an affiliate may not be negotiated on an arms-length basis. These types of services also may be provided by strategic partners and Colony Capital may benefit indirectly from such fees. The Company may also bear fees, costs and expenses paid to third party vendors or affiliated entities whose services it is customary for asset managers to retain, including lawyers, accountants, brokers, investment bankers, transfer agents, administrators, custodians and other consultants, advisors and agents.

Please see Item 12 for a discussion of Manager's allocation policy and a discussion of factors that may affect the costs of executing portfolio transactions.

Deal Costs

The Company generally bears the costs associated with its investments (including costs related to the establishment and maintenance of investment vehicles) and prospective investments (even if the Manager does not proceed with

a prospective investment for any reason (“Broken Deal Costs”) and is required to reimburse the Manager for such investment-related costs if incurred by it. Such expenses may include, without limitation, acquisition or origination fees paid to the Manager, fees paid to joint venture partners (which may include management and/or incentive fees), fees of legal counsel, administrators, auditors and accountants, brokers, consultants, appraisers, property managers, transfer and other taxes, insurance costs, capital expenditures/maintenance, compensation and costs of management and leasing personnel, developer fees, costs related to construction and maintenance, custodian fees, fees for architectural, engineering or other studies or reports related to proposed or existing investments, fees and expenses of unaffiliated parties incident to the preparation and distribution of reports, travel expenses, and other out-of-pocket property and portfolio expenses, incurred in connection with the evaluation, negotiation, acquisition, operation and/or sale of proposed or existing investments. The Company may also bear such Broken Deal Costs directly.

Timing and Deduction of Fees

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

Item 6: Performance-Based Fees and Side-By-Side Management

Performance-based compensation arrangements, if any, are negotiated with each client on an individualized basis and will in all cases be in compliance with Section 205(3) of, or Rule 205-3 under, the Advisers Act. The payment of performance-based compensation may be subject to a specified “hurdle” rate.

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

The allocation of Manager’s or Affiliated Advisers’ expenses among Clients may also create conflicts of interest. The Manager or Affiliated Advisers will allocate certain expenses associated with managing Client assets among the applicable Clients, based on the services provided to each Client and the limitations set forth in each Client’s Governing Documents. This may create incentives for Manager or Affiliated Advisers to allocate investment opportunities among Clients, based on the adviser’s expenses that the Clients will assume. In addition, Manager’s expense allocations may impact whether or not certain performance hurdles are met by a Client, which can impact whether Manager or an Affiliated Adviser receives incentive fees. This creates a conflict of interest and may create an incentive for Manager or an Affiliated Adviser to allocate expenses disproportionately among Clients.

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

Item 7: Types of Clients

Manager currently provides investment advice only to the Company, but it may in the future provide investment advice to other Clients, including pooled investment vehicles, co-investment vehicles and real estate finance companies, generally in the form of corporations, limited partnerships or limited liability companies. The Manager does not have requirements for opening or maintaining accounts. However, there may be conditions for investing in Managed Vehicles, including minimum investment amounts, which are stated in their respective Governing Documents for each Managed Vehicle. For Managed Vehicles with minimum investment amounts, the Governing Documents generally note that the general partner or company, as applicable, has the discretion to reduce or waive the minimum investment amount.

As a general matter, any Managed Vehicle Client, including the Company, would be managed in accordance with its investment objectives, strategies and guidelines and is not tailored to the individual needs of any particular investor and an investment in a Managed Vehicle does not, in and of itself, create an advisory relationship between the investor and Manager. Therefore, investors must consider whether the Managed Vehicle meets their investment objectives and risk tolerance prior to investing in a Managed Vehicle.

The Company intends to elect to qualify as a REIT under the U.S. Internal Revenue Code of 1986, as amended. The Company invests in the commercial real estate industry and originates, invests in and manages portfolios of commercial real estate debt, commercial real estate equity and other select equity and securities investments. The Company is a public company registered with the SEC under the Securities Act of 1933, as amended, and Securities Exchange Act of 1934, as amended. The Company is subject to certain investment restrictions for the purpose of preserving (i) its treatment as a REIT for federal income tax purposes and (ii) its exemption from registration under the Investment Company Act.

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

Methods of Analysis and Investment Strategies

The Manager will invest in a broad spectrum of commercial real estate and real estate related assets on behalf of the Company. As a general matter, Manager will provide investment strategies consistent with the investment objectives and needs of each Client, including the Company. The Company's investment objective is to generate attractive risk adjusted returns to the Company's stockholders. The Company will seek to achieve this objective primarily through cash distributions and the preservation of invested capital and secondarily through capital appreciation. The Company's stated investment strategy is to be dynamic and flexible, enabling the Company to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies.

As part of the Manager's advisory services to the Company, the Manager focuses on the following types of assets, which the Company refers to as the target assets:

- *Senior Mortgage Loans.* The Company intends to focus on originating and selectively acquiring senior mortgage loans that are backed by CRE assets. These loans are secured by a first mortgage lien on a commercial property and provide mortgage financing to a commercial property developer or owner. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, if at all, over varying periods, often with a balloon payment of principal at maturity.
- *Mezzanine Loans.* The Company may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to equity in the borrower. Mezzanine loans may be structured such that the Company's return accrues and is added to the principal amount rather than paid on a current basis. The Company may also pursue equity participation opportunities in instances when the risk/reward characteristics

of the investment warrant additional upside participation in the possible appreciation in value of the underlying assets securing the investment.

- *Preferred Equity.* The Company may make investments that are subordinate to senior and mezzanine loans, but senior to the common equity in the mortgage borrower. Preferred equity investments may be structured such that the Company's return accrues and is added to the principal amount rather than paid on a current basis. The Company may also pursue equity participation opportunities in preferred equity investments, similar to such participations in mezzanine loans.
- *CRE Debt Securities.* The Company may make investments that consist of bonds comprising certain tranches of CRE securitization pools, such as CMBS (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations (collateralized by pools of CRE debt instruments). These bonds may be investment grade or below investment grade and are collateralized by CRE debt, typically secured by senior mortgage loans and may be fixed rate or floating rate securities.
- *Net leased Real Estate.* The Company may also invest directly in well located CRE with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses, such as insurance, utilities, maintenance capital expenditures and real estate taxes.

The Company's initial portfolio will be comprised of a diverse set of CRE assets, including senior mortgage loans, mezzanine loans, preferred equity, debt securities, net leased properties and other real estate equity investments, all of which have been underwritten and asset managed by Colony Capital or its affiliates and predecessors. The Company may in the future initiate an initial public offering, and until appropriate investments can be identified, the Manager may invest the proceeds of the Company's initial public offering, if any, and any future offerings in interest-bearing, short-term investments, including money market accounts and/or U.S. treasury securities, that are consistent with the Company's intention to qualify as a REIT and maintain its exemption from registration under the Investment Company Act of 1940, as amended.

Leverage Strategy

Manager may employ leverage on behalf of the Company. The Company expects to have a multi-pronged financing strategy that will initially include a secured revolving credit facility, secured revolving repurchase facilities, non-recourse securitization financing, commercial mortgages and other asset-level financing structures. In addition, the Company may use other forms of financing, including additional warehouse facilities, public and private secured and unsecured debt issuances and equity or equity-related securities issuances by the Company or its subsidiaries. The Company may also finance a portion of its investments through the syndication of one or more interests in a whole loan or securitization. The Company will seek to match the nature and duration of the financing with the underlying asset's cash flow, including through the use of hedges, as appropriate.

Hedging

Accounts may be hedged using various derivative instruments, including currency and foreign exchange derivatives, interest rate swaps, caps, floors and other interest rate exchange contracts as well as engaging in short sales of securities or of futures contracts. The Manager does not use hedging for speculative purposes.

Material Risks

Risk of Loss

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

portion of the value of their investment and, as such, should not invest unless they can readily bear the consequences of such loss.

Below is a summary of certain risks associated with an investment in Company. Investors should refer to the risk factors in the Company's Governing Documents, or other documents (as applicable) provided to, or made available to, prospective investors for a more complete description of the risks associated with the investment in such Company, including the risks described in such Company's public filings with the SEC, as applicable. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Company. These risk factors include certain risks Manager believes to be material, significant or unusual and relate to particularly significant investment strategies or methods of analysis employed by Manager.

General Risks

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

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

In addition, interest rates may impact the Company's use of any leveraged capital structure, in which case a third party would be entitled to cash flow generated by such investments prior to the investing Company receiving a return.

- *Leverage.* Use of borrowed funds to leverage acquisitions involves a high degree of financial risk and can exaggerate the effect of any increase or decrease in value of an investment and will increase the exposure of the investments to adverse economic factors, such as fluctuations in interest rates, downturns in the local economies in which the investments are located or deterioration in the condition of the investments. Accordingly, the use of leverage may cause the Company's value to be more volatile than it would be in the absence of such leverage. In addition, to the extent a strategy employed on behalf of the Company is dependent on leverage, the availability (or lack thereof) and cost of financing may significantly affect the ability of the Company to execute its investment strategy.
- *Litigation.* In the ordinary course of business, owners of real estate may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of an investment and may continue without resolution for long periods of time.

In connection with such actions, the Company may be obligated to bear defense, settlement, and other costs (which may be in excess of insurance coverage therefore provided by the Company at such Company's expense for such purposes), and the investment adviser of the Company and others may be entitled to indemnification under, and subject to the terms of, such Company's investment agreement and/or other agreements entered into by such Company.

- *Risky and Illiquid Investments.* Real estate and related investments are generally risky and illiquid and there can be no assurance that investing in the Company will be able to realize on any such investment in a timely manner. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on the investment's resale by the applicable Company.

Additionally, investments in private equity funds may be particularly illiquid, as there is often no secondary market in private equity securities and private equity investments often have "lock-up periods" during which an investor may not sell its interests. Reduced issuances of CMBS and other debt securities may harm the real estate market generally or the Company directly. As a result, the Company's ability to sell commercial real estate investments in response to changes in economic and other conditions, could be limited, even at distressed prices. The Internal Revenue Code also places limits on the Company's ability to sell properties in certain circumstances. These considerations could make it difficult for a Company to sell or dispose of any of its assets even if a disposition were in the best interests of its investors. As a result, the Company's ability to vary its portfolio in response to further changes in economic and other conditions may be relatively limited, which may result in losses. In addition, disposing of illiquid investments, particularly investments that are large or complex, may take considerable time and expense, and may be disruptive to managing other assets on behalf of the Company.

- *Operational Risks.* Many investments are subject to operational risks – risks that the internal processes and systems designed to operate a business, property or other entity safely and efficiently are in some fashion inadequate or that the individuals tasked with managing such processes and systems fail to properly carry out their functions.
- *Foreign Investments.* The Company may invest in CRE assets located in foreign countries. The business and financial results of the Company could be adversely affected due to currency fluctuations, social or judicial instability, acts or threats of terrorism, changes in governmental policies or policies of central banks, expropriation, nationalization and/or confiscation of assets, price controls, fund transfer restrictions, capital controls, exchange rate controls, taxes, inadequate intellectual property protection, unfavorable political and diplomatic developments, changes in legislation or regulations and other additional international developments or restrictive actions. These risks are

especially acute in emerging markets. As in the United States, many non-U.S. jurisdictions in which the Company may do business have been negatively impacted by recessionary conditions. Non-U.S. investments may also be subject to extensive regulation by various non-U.S. regulators, including governments, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate. Non-U.S. investments may impact performance of the Company and distributions to investors necessary to maintain the Company's qualification as a REIT for tax purposes.

- *Restrictions on Repatriation of Capital and Profits.* Some countries in which the Company may invest control, in varying degrees, the repatriation of capital and profits that result from foreign investment. Capital markets, often opaque, continue to be highly regulated and will likely be subject to continuing government restrictions. There can be no assurance that the Company investing in such countries will be permitted to repatriate capital or profits, if any, from these countries.
- *Inflation.* Some countries in which the Company may invest have experienced substantial rates of inflation in recent years. Inflation and rapid fluctuations in inflation rates have had, and may in the future have, negative effects on the economies and securities markets of certain emerging economies. There can be no assurance that inflation will not become a serious problem in the future and have an adverse impact on the investments in these countries or the Company's returns from such investments.
- *Non-U.S. Economic, Political, Regulatory and Social Risks.* Investments by the Company may be subject to economic, political, regulatory, and social risks, which may affect the liquidity of such investments. The governments of certain of the countries in which the Company may invest have exercised and continue to exercise substantial influence over many aspects of the private sector. The availability of investment opportunities for the Company depends in part on governments continuing to liberalize their policies regarding foreign investment and to further encourage private sector initiatives. In certain jurisdictions, foreign ownership of assets and companies may be restricted, requiring the Company investing in such countries to share the applicable investments with local third-party partners or investors, and there may be significant local land use and permit restrictions, local taxes, and other transaction costs which adversely affect the returns sought by the Company. The Company does not intend to obtain political risk insurance. Accordingly, government actions in the future could have a significant effect on economic actions in such countries, which could affect private sector assets and real estate and real estate-related companies and the prices and yields of investments. Exchange control regulations, expropriation, confiscatory taxation, nationalization, political, economic, or social instability or other economic or political developments could adversely affect the assets of the Company that are held in particular countries. Political changes or a deterioration of a particular country's domestic economy or balance of trade may indirectly affect the investments of the Company in a particular assets or company in such country. Moreover, the investments could be adversely affected by changes in the general economic climate or the economic factors affecting industries in which the Company have invested, changes in tax law or specific developments within such industries or interest rate movements. While the Manager intends to manage these investments in a manner that will minimize the Company's exposure to such risks, there can be no assurance that adverse political or economic changes will not cause the Company to suffer losses. Any significant military action by the U.S. and/or its allies, terrorist attacks and/or the anticipation of any such actions or response to them may have a further adverse impact on worldwide economic stability. It is not possible to predict the severity of the effect that terrorist activity and/or military response will have on the economic situation of the countries in which the Company may invest. Nevertheless, any resulting economic instability or downturn could affect the returns sought by the Company.
- *Undeveloped Infrastructure.* In certain countries where the Company may invest, capital and advanced technology are significantly limited. Delays in local postal, transport, banking or communications systems could cause investing Company to lose rights, opportunities, entitlements or funds and expose the Company to currency fluctuations

- *Ability to Enforce Legal Rights.* Because of the effectiveness of the judicial systems in the countries in which the Company may invest varies, the Company may have difficulty in successfully pursuing claims in the courts of such countries, as compared to those of the U.S. or other developed countries. Further, to the extent that the Company may obtain a judgment but is required to seek its enforcement in the courts of one of these countries, there can be no assurance that such a court will enforce such a judgment.
- *Currency Rates.* Fluctuations in currency rates may adversely affect the ability of the Company to successfully acquire non-U.S. assets and may also adversely affect the performance of the Company's investments in such assets. Because non-U.S. securities or other non-U.S. assets may be purchased with and payable in currencies of countries other than the U.S., the value of these assets measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. In addition to currency and exchange risks, these investments may be subject to additional risks relating to foreign political and regulatory risks, which may affect the liquidity of such investments. Additional risks include possibilities of instability of the local country's political and economic structures and less predictable means of dispute resolution and enforcement of local rights regarding investments.

Some countries in which the Company may invest may employ managed exchange rate regimes which, in addition to other policies, may distort the results of, and returns on, the investments in such countries. Several countries, however, have been unable to sustain their exchange rates and have devalued their currency or shifted to floating exchange rate regimes. It is not possible over the life of the Company to assess the degree to which individual currencies will be permanently affected, but significant depreciation of any particular currency may adversely impact the investments in the applicable country and/or such Company's returns from such investments.

- *Competition.* The Company faces competition from other real estate investors, some of which have greater financial resources, including publicly-traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors and that competition may limit the amount of new investments that Manager is able to cause its Company to acquire. Manager may not be able to compete successfully for investments on behalf of the Company. In addition, over the past several years, an increasing number of funds have been formed with investment objectives similar to those of the Company and the number of entities and the amount of funds competing for suitable investments may increase. If these events occur, the Company may experience lower investment performance. There can be no assurance that Manager will be able to locate and complete investments for the Company that satisfy its respective rate of return objectives or realize upon their values or that the Company will be able to invest fully their available capital, which would have an adverse impact on returns.
- *Joint Ventures.* The Company may enter into joint ventures with third parties to make investments and/or make investments in partnerships or other co-ownership arrangements or participations. Such investments may involve risks not otherwise present with other methods of investment, including, for example, the following risks:
 - the joint venture partner in an investment could become insolvent or bankrupt;
 - fraud or other misconduct by the joint venture partners;
 - decision-making authority may be shared with joint venture partners regarding certain major decisions affecting the ownership of the joint venture and the joint venture property, such as the sale of the property or the making of additional capital contributions for the benefit of the property, which may prevent the Company from taking actions that are opposed by the joint venture partner;

- the joint venture partner may at any time have economic or business interests or goals that are or that become in conflict with the Company's business interests or goals, including for example the operation of the properties;
- the joint venture partner may be in a position to take action contrary to the Company's instructions or requests or contrary to the Company's policies or objectives; and
- the terms of the joint ventures could restrict the Company's ability to sell or transfer its interest to a third party when it desires on advantageous terms, which could result in reduced liquidity.

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

- *Manager Risk.* The Company is subject to the risk that Manager's purchases, sales, and/or management of investments on behalf of the Company may not produce the desired results and may have an adverse impact on the Company. The Company are also subject to the risk that Manager's internal business structure, reputation or strategic initiatives will limit Manager from competing successfully for investment opportunities on behalf of the Company or be disruptive to the services provided to the Company.
- *Integration Risk.* The Company may not be able to effectively integrate the management of the various assets in its portfolio and therefore integration may involve risks.
- *Cyber Security Risk.* As the use of technologies, such as the internet, has become more common in conducting business, the Company may be more susceptible to operational, information security, and related risks in connection with breaches in cyber security. Generally, a cyber-security failure may result from either intentional attacks or unintentional events and include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, causing the Company to lose proprietary information, corrupting data, or causing operational disruption, including denial-of-service attacks on websites. A cyber security failure could cause the Company and/or Manager to become subject to regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial losses. Cyber security failures may involve third party service providers, joint venture partners, and investments made by, or counterparties in transactions with, Manager or the Company. Manager has established policies and procedures reasonably designed to reduce the risks associated with cyber security failures; however, there can be no assurance that these policies and procedures will prevent or mitigate the impact of cyber security failures.
- *Key Personnel Risk.* The Company is subject to the risk that it will lose the services of key personnel. It may be difficult or disruptive for the Company to replace the experience of these key personnel and the relationships they have developed with real estate professionals and financial institutions.
- *Environmental Risks.* As is the case with any holder of real estate investments, the Company could face substantial risk of loss from environmental claims based on environmental problems associated with their investments. The Company might invest in real estate, or mortgage loans secured by real estate, with environmental problems that materially impair the value of the real estate. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous substances released at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate

as collateral. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. The Company may experience environmental liability arising from conditions not known to them.

Real Estate-Related Risk

- *Real Estate Risk.* The Company' investments in commercial real estate are subject to risks typically associated with real estate. The value of real estate may be adversely affected by a number of risks, including, without limitation:
 - local, state, national or international economic conditions;
 - real estate conditions, such as an oversupply of or a reduction in demand for real estate space in an area;
 - tenant/operator mix and the success of the tenant/operator business;
 - property management decisions;
 - property location and conditions;
 - property operating costs, including insurance premiums, real estate taxes and maintenance costs;
 - the perceptions of the quality, convenience, attractiveness and safety of the properties;
 - branding, marketing and operational strategies;
 - competition from comparable properties;
 - the occupancy rate of, and the rental rates charged at, the properties;
 - the ability to collect on a timely basis all rent;
 - the effects of any bankruptcies or insolvencies;
 - the expense of leasing, renovation or construction;
 - changes in interest rates and in the availability, cost and terms of mortgage financing;
 - unknown liens being placed on the properties;
 - bad acts of third parties;
 - the ability to refinance mortgage notes payable related to the real estate on favorable terms, if at all;
 - changes in governmental rules, regulations and fiscal policies;
 - tax implications;
 - changes in laws, including laws that increase operating expenses or limit rents that may be charged;

- the impact of present or future environmental legislation and compliance with environmental laws, including costs of remediation and liabilities associated with environmental conditions affecting properties;
- cost of compliance with the Americans with Disabilities Act of 1990;
- adverse changes in governmental rules and fiscal policies;
- social unrest and civil disturbances;
- acts of nature, including earthquakes, hurricanes and other natural disasters;
- terrorism;
- the potential for uninsured or underinsured property losses;
- adverse changes in state and local laws, including zoning laws; and
- other factors which are beyond control.

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

- *Casualty Losses; Uninsurable Losses.* Manager expects to maintain or cause the Company to maintain comprehensive casualty insurance on its investments, including liability and fire and extended coverage. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods and hurricanes that may be uninsurable or not economically insurable. The Company may or may not obtain, or be able to obtain, or require borrowers to obtain, terrorism insurance. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the property, which might impair a Company's security and decrease the value of the property. For debt investments, the Company are subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance.
- *Financial Condition of Tenants or Operators.* Real estate investments made by the Company may be adversely affected by financial difficulties experienced by any of their major tenants/operators, including bankruptcy, insolvency or a general downturn in the business, or in the event that any of the major tenants/operators do not renew or extend their relationship with Manager as their lease terms expire.

The Company are exposed to the risk that the tenants/operators of properties in which they invest may not be able to meet their obligations to the Company or other third parties, which may result in their bankruptcy or insolvency. Although the leases and loans permit Manager and the Company to evict a tenant/operator, demand immediate repayment and pursue other remedies, bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant/operator in bankruptcy may be able to restrict Manager's ability to collect unpaid rents or interest on behalf of the Company during the bankruptcy proceeding. Furthermore, dealing with a tenant/operator's bankruptcy or other default may divert Manager's attention and cause the Company to incur substantial legal and other costs. Certain tenants/operators/managers may operate or manage properties of Manager's competitors, which may create conflicts of interests that may harm the Company. Furthermore, AHI and

other joint venture partners may manage other properties on behalf of other firms which could create additional conflicts of interest.

CRE Debt and Securities Risk

- *CRE Debt and Securities.* CRE debt and securities investments are generally directly or indirectly secured by a lien on real property. The occurrence of a default on a CRE debt investment could result in a Company acquiring ownership of the property. Manager does not know whether the values of the properties ultimately securing CRE debt and ultimately securing the mortgage loans underlying CRE securities will remain at the levels existing on the dates of origination of these underlying mortgage loans and the dates of origination of the loans ultimately securing the CRE securities, as applicable. If the values of the properties drop, the risk will increase because of the lower value of the collateral and reduction in borrower equity associated with the related loans. In this manner, real estate values could impact the values of CRE debt and securities investments. CRE equity investments may be similarly affected by real estate property values. Therefore, CRE equity, debt and securities investments are subject to the risks typically associated with real estate.
- *Subordinate Debt Investments.* Certain of the Company's investments may consist of loans or securities, or interests in pools of securities, that are subordinated or may be subordinated in right of payment and ranked junior to other securities issued by, or loans made to obligors. If an obligor experiences financial difficulty, holders of its more senior securities will be entitled to payments in priority to the Company. After repaying the senior creditors, such obligor may not have any remaining assets to repay its obligations to remaining investors. Where debt senior to the Company's debt investment exists, the presence of inter-creditor arrangements may limit a Company's ability to amend its debt agreements, assign its debt, accept prepayments, and exercise remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to its borrowers. As a result, the Company may not recover some or all of their investment. In addition, real properties with subordinate debt may have higher loan-to-value ratios than conventional debt, resulting in less equity in the real property and increasing the risk of loss of principal and interest.
- *Commercial Mortgage Backed Securities Risk.* The Company may invest in a variety of CMBS, including subordinate securities that are subject to the first risk of loss if any losses are realized on the underlying mortgage loans. CMBS entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial mortgage loans. The CMBS that the Company acquire and the mortgage loans underlying their CMBS investments are subject to the ability of the property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure. The ability of a commercial mortgage borrower to repay a loan secured by an income-producing property, such as a multifamily or commercial property, typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Consequently, CMBS will be adversely affected by payment defaults, delinquencies and losses on the underlying commercial real estate loans, which began to increase significantly toward the end of 2008 and may continue.

Furthermore, if the rental and leasing markets do not continue to improve, including by increasing occupancy rates and increasing market rental rates, it could reduce cash flow from the loan pools underlying the Company's CMBS investments. The CMBS market is dependent upon liquidity for refinancing and will be negatively impacted by a slowdown in the new issue CMBS market. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other

operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the underlying collateral. In the event of any default under a mortgage loan held directly by the Company, the Company will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral (or their ability to realize such value through foreclosure) and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on the Company. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on the anticipated return on the foreclosed mortgage loan.

- *Collateralized Debt Obligations.* CDOs are multiple class securities secured by pools of assets, such as CMBS, mortgage loans, subordinate mortgage and mezzanine loans and REIT debt. Like typical securitization structures, in a CDO, the assets are pledged to a trustee for the benefit of the holders of the CDO bonds. Like CMBS, CDO notes are affected by payments, defaults, delinquencies and losses on the underlying loans or securities. To the extent a Company retains or invests in the equity interests of a CDO, it is entitled to all of the income generated by the CDO after the CDO pays all of the interest due on the senior securities and its expenses. There may be little or no income or principal available to the holders of CDO equity interests if defaults or losses on the underlying collateral exceed a certain amount. In that event, the value of investments in any equity interest of a CDO could decrease substantially. In addition, the equity interests of CDOs are illiquid and often must be held by a REIT and because they represent a leveraged investment in the CDO's assets, the value of the equity interests will generally have greater fluctuations than the value of the underlying collateral.
- *Credit Spread Risk.* The Company's investments in commercial real estate loans are subject to changes in credit spreads. When credit spreads widen, the economic value of such investments decrease. Even though such an investment may be performing in accordance with its terms and the underlying collateral has not changed, the economic value of the investment may be negatively impacted by the incremental interest foregone from the widened credit spread.
- *Market Volatility and Due Diligence Risk.* Periods of market volatility and lack of liquidity may make the valuation process pertaining to certain of the Company's assets difficult, particularly any CMBS assets for which there was limited market activity. Manager's estimate of the value of these investments will be primarily based on active issuances and the secondary trading market of such securities as compiled and reported by independent pricing agencies. Manager's estimate of fair value, which will be based on the notion of orderly market transactions, requires significant judgment and consideration of other indicators of value such as current interest rates, relevant market indices, broker quotes, expected cash flow and other relevant market data as appropriate. Manager's estimates could be wrong and there is a heightened risk of this during challenging and volatile market environments. The amount that a Company could obtain if Manager were forced to liquidate securities investments into the current market could be materially different than management's best estimate of fair value.

Private Equity Investments Risk

- *General Risks.* Company may be subject to the risks of investments in private equity-style real estate funds ("PE Investments"). PE Investments in general are subject to a variety of risks, including, without limitation, risks related to: (i) the quality of the management of the portfolio funds and the ability of such management to successfully select investment opportunities; (ii) general economic conditions; and (iii) the ability of the

portfolio funds to liquidate investments on favorable terms or at all. In addition, PE investments are generally illiquid because there is a limited or no secondary market in which to sell the PE investments and any such sale is subject to the consent of the general partner of the portfolio fund. PE investments also involve high levels of fees and expenses because the Company, as a limited partner of the portfolio fund, generally will pay a management fee and promote to the manager/general partner and also pay organizational, offering and operating expenses of the portfolio fund. In certain instances, a Company may invest in a portfolio fund that is sponsored and/or managed by an affiliate or strategic partner of Manager or a Company, such as RXR Realty. The structure of a private equity transaction may also increase the use of leverage and risks related thereto. In addition, certain private equity investments may involve co-investments among Company, which may create conflicts of interest.

- *Investments in Smaller Private Companies.* Investments made in private companies involve a number of particular risks, including: (i) these companies may have limited financial resources and limited access to additional financing, which may increase the risk of their defaulting on their obligations, leaving creditors such as Company dependent on any guarantees or collateral that they may have obtained; (ii) these companies frequently have shorter operating histories, narrower product lines and smaller market share than larger business, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) there may not be as much information publicly available about these companies as would be available for public companies and such information may not be of the same quality; and (iv) these companies are more likely to depend on the management talents and efforts of a small group of persons; as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations.
- *Third Party and Co-Investment Risk.* The Company may co-invest with third parties. These transactions potentially raise conflicts of interest. For example, a Client may co-invest with certain Colony Capital funds, current limited partners of clients of CCIA or other market participants with which Colony Capital, Manager, or an affiliate, has important business relationships, and such relationships could influence the decisions made by Manager and/or Colony Capital with respect to the purchase or sale of such investments. Further, such third parties could have interests that may be contrary to the Company's investment objective or which may conflict with the Client's interest. In those circumstances where such third parties involve a management group, such third parties may receive compensation relating to such investments, including incentive compensation arrangements. There can be no assurance that the foregoing will not have an adverse impact on the Client's ability to find, consummate and/or exit investments.

Item 9: Disciplinary Information

Not applicable.

Item 10: Other Financial Industry Activities and Affiliations

The Manager is an indirect subsidiary of Colony Capital, a global real estate and investment management firm publicly-traded on the New York Stock Exchange. The affiliation between the Manager and Colony Capital may create potential conflicts of interest for the Manager, including with respect to instances where the investment strategy of Colony Capital's balance sheet overlaps with the investment strategies of Managed Vehicles. The Manager has implemented policies and procedures to mitigate or avoid potential conflicts of interest with Colony Capital.

The Manager is affiliated with the Affiliated Advisers, which are indirect subsidiaries of Colony Capital and registered investment advisers. The advisory businesses of the Affiliated Advisers consists of advising Managed Funds, Managed REITs, and closed-end management investment companies registered under the Investment Company Act. The Manager may share investment personnel and resources with the Affiliated Advisers and affiliates of Colony Capital, and will devote such time as shall be necessary to conduct the business affairs of clients in an appropriate manner. Personnel of the Manager

will accordingly work on several projects at any time and, therefore, conflicts may arise in the allocation of personnel and other management resources. Manager and its affiliates are not required to manage any one Client as its sole and exclusive function, and Manager and its affiliates, including Colony Capital, and their respective agents, officers, directors and personnel may engage in or possess any interests in business ventures and may generally engage in other activities independently or with others, including the rendering of advice or services of any kind to other investors and the making or management of other investments or other investment Clients. In some cases, Manager or its affiliates may have business arrangements with related persons/companies that are material to its advisory business or to the Company. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between the Manager and the Company. The businesses of the Affiliated Advisers are not covered under this Brochure, and more information about such advisory businesses are available in the Form ADV filings for those firms.

The Manager receives reimbursements from affiliated entities to provide accounting and other services to the Company and to manage properties in which the Company invests. Manager may have incentives to select the services of affiliated entities or entities involved in strategic relationships, even if such services could be provided as well by other entities.

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

The Manager's investment professionals may recommend that the Company invest in, or engage in transactions with, other Managed Vehicles or affiliates of Colony Capital. The investment professionals of the Manager have an incentive to favor investments in or between, or corporate combinations, reorganizations or other transactions between or among, such entities that may increase Manager's overall remuneration.

Item 11: Code Of Ethics, Participation Or Interest In Client Transactions And Personal Trading

Code of Ethics

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

Personal Trading

Personnel considered "access persons" within the meaning of Rule 204A-1 under the Advisers Act may purchase and sell for their own accounts the same securities purchased or sold on behalf of Clients. However, given the nature and size of the real estate investments made on behalf of Clients, such personal trading activity is not expected to be

likely. Notwithstanding the probability of such activity, because the Code permits personnel to invest in the same securities as Clients, there is a possibility that personnel might benefit from market activity by a Client in a security or other investment held by an employee. To mitigate this possible conflict of interest and others that may arise, Manager has established policies requiring “access persons” to obtain pre-clearance before investing in certain reportable securities such as initial public offerings and private placements (including private equity fund and hedge fund investments). In addition, Manager monitors for conflicts of interest on a periodic basis and will not allow any of its “access persons” to buy or sell securities for their own accounts at or about the same time that Manager buys or sells securities or other investments for Clients if Manager feels that there is a possibility that the personal trade would benefit from Manager’s investment activities.

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

Participation or Interest in Client Transactions

Manager’s personnel must obtain prior permission of the CCO or designee for certain transactions that appear to pose a conflict of interest or otherwise appear improper. In particular, all personnel of the Manager must have written pre-clearance for all transactions involving initial public offerings and private placements before completing the transactions. Additionally, co-investments with Clients could present conflicts of interest if not properly structured and monitored. As such, all personnel of the Manager must have pre-clearance for all transactions involving co-investments alongside Clients before completing the transactions. The CCO or designee is responsible for monitoring co- 3 investments by Manager and its personnel. Manager maintains one or more lists of restricted securities in which Manager may have material non-public information. All personnel of the Manager are prohibited from trading in issuers on the restricted list unless specifically approved by the CCO or designee.

Gifts and Entertainment

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

Cross-Trades and Principal Transactions

From time to time Manager may execute cross trades among Clients. Manager only will execute cross trades between client accounts when such a transaction is reasonably expected to be advantageous to both participants. Any such transactions must be in accordance with applicable law, Governing Documents and Manager’s internal policies and procedures. Manager may, in certain instances, receive a fee in connection with cross trades among Clients. If a fee is charged in connection with a cross trade, Manager provides information on the fee related to the cross trade to the board of directors of the applicable Company Client for approval.

The Manager may also from time to time execute principal trades between its Clients and the balance sheet of Colony Capital, the Manager’s parent company. The Manager may also be considered to be engaging in a principal transaction if it were to enter into a transaction between the Company and another client advised by the Manager or an affiliate or Colony Capital. In cases where the Manager would be deemed to be engaging in a principal transaction, the Manager will disclose to any applicable Clients the capacity in which it or an affiliate is acting and obtain such Client’s consent before the completion of each transaction. Principal transactions also create potential conflicts of interest, including conflicts related to pricing and execution costs of the transaction. The Manager will take steps to manage or avoid conflicts of interest when engaging in such transactions in accordance with applicable law.

Other Conflicts

The Manager and the Affiliated Advisers manage investments on behalf of different Clients. Certain Clients have investment programs that are similar or may overlap and may, therefore, participate with each other in (or compete for) investments. Because of the diversity of investment strategies and objectives, risk tolerances, capital positions, tax situations and differences in the timing of capital contributions and withdrawals, there will be differences in invested positions held or investment appetites among the Clients. Any allocation of investments among the Clients by the Manager or an Affiliated Adviser will be made in a manner consistent with each Client's investment objectives. Investment decisions and allocations are not necessarily made in parallel among all of the Clients. In all cases, allocation requirements (if any) set forth in the Clients' Governing Documents will control. The Manager or an Affiliated Adviser in its sole discretion may allow multiple Clients to co-invest in a particular investment, based upon a variety of factors including, among other factors, investment strategy, mandate or area of focus; risk management (*e.g.*, volatility, liquidity, diversification and concentration in light of each Client's existing portfolio and investment pipeline); fund restrictions or limitations; tax or legal considerations; and cost or availability of financing. Because the Manager or an Affiliated Adviser may allocate a particular investment among the Clients unequally, the Clients may produce results that are materially different from one another. (See *Item 12: Brokerage Practices--Allocation Policy*.)

Item 12: Brokerage Practices

Transaction Execution and Broker-Dealer Selection

Manager seeks to minimize the cost and expense of investment transactions effected on behalf of Company while also seeking to achieve the most efficient structure of such investments, taking into account, among other things, tax, regulatory and client-specific considerations. These costs and expenses may vary, and transactions may be effected differently for one Client than another, as a result of various factors, including, without limitation, the location of a client, the location and nature of the particular investment involved, and other client-specific considerations. The Manager or an Affiliated Adviser may aggregate assets among Clients in connection with a portfolio sale in order to seek best execution for each Company. In such instances, the applicable Company shares transaction expenses on a pro-rata basis.

Manager may use unaffiliated brokers, which are selected on the basis of: (i) the reasonableness of such brokers' commissions relative to others offering similar services; and (ii) the ability of such brokers to obtain best execution. Not all portfolio transactions require or involve a broker-dealer. When it is deemed necessary or appropriate to involve a broker-dealer in portfolio transactions for the Company, such transactions will be allocated to brokers and dealers on the basis of Manager's best execution policies. The factors considered in selecting and approving brokers-dealers that may be used to execute trades for the Company's accounts include, but are not limited to: (i) the reasonableness of the broker-dealer's commissions relative to others offering similar services; (ii) the ability of such broker-dealer to execute a transaction efficiently and appropriately; (iii) the broker-dealer's general expertise and background; (iv) the type and size of the transaction involved; (v) the stability or solvency of the service provider or counterparty; (vi) settlement capabilities; (vii) time required to complete the role sought; and (viii) research services or any arrangements relating to overall performance in the best interest of the client.

Manager accepts only proprietary research from the brokers and does not enter into any formal soft dollar arrangements whereby it receives research or any other benefit from third parties. Research services received from brokers and dealers are supplemental to the Manager's own research effort. To the best of the Manager's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. Manager does not separately compensate such broker-dealers for the research and does not believe that it "pays-up" for such broker-dealers' services due to the difficulty associated with the broker-dealers not breaking out the costs for such services. Manager's acceptance of research from brokers is done in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Allocation Policy

The Manager will allocate investment opportunities that may be suitable for the Company, CLNY and any Managed Vehicle in accordance with CLNY's investment allocation policy. The investment allocation policy, described in further detail below, seeks to ensure that investment opportunities are allocated in a fair and equitable manner over time, consistent with the Manager's fiduciary duty to the Company and in a manner that is consistent with each of its client's particular characteristics, including their investment objectives, restrictions and risk profile. Generally, as a fiduciary, the Manager is prohibited from making investment allocation decisions solely based on any of the following considerations, which include but are not limited to: (i) unduly favoring one client (or group of clients) at the expense of another, including any proprietary or personal accounts of its associated persons or affiliates of the Manager; (ii) generating higher fees paid by one client (or group of clients) over another or to produce greater performance compensation to the Manager; (iii) compensating a client (or group of clients) for past services or benefits rendered to the Manager or to induce future services or benefits to be rendered to the Manager; and (iv) managing or equalizing investment performance among different clients (or group of clients).

When making investment allocation decisions regarding a suitable investment for one or more clients, the Manager will take into account, without limitation: (i) investment objectives, dedicated mandates, strategy and criteria; (ii) current and future cash requirements of the investment and the client; (iii) the effect of the investment on the diversification of the portfolio, including by geography, size of investment, type of investment and risk of investment; (iv) leverage policy and the availability of financing for the investment by each client; (v) anticipated cash flow of the investment to be acquired; (vi) income tax effects of the investment; (vii) the size of the investment; (viii) the amount of funds available for investment; (ix) ramp-up or draw-down periods; (x) cost of capital; (xi) risk return profiles; (xii) targeted distribution rates; (xiii) anticipated future pipeline of suitable investments; (xiv) the expected holding period of the investment and the remaining term of the client, if applicable; (xv) legal, regulatory or tax considerations, including any conditions of an exemptive order; (xvi) affiliate and/or related party considerations; and (xvii) whether a client has other sources of investment opportunities outside of the Manager. If it is determined that an investment is most suitable for a particular client, the investment will be allocated to such client. If it is determined that an investment is equally suitable for two or more clients, then the Manager may allocate the investment among such clients on a rotational basis. In general, a rotational allocation methodology means that if a client has been previously allocated an investment as a result of the rotational process, it may be skipped in the rotation until all other clients for which a particular investment is equally suitable have been allocated an investment. Subject to regulatory restrictions, SEC guidance and any exemptive orders obtained by one or more Managed Vehicles (as applicable), the Manager may deem it appropriate for the Company and one or more other Managed Vehicles to co-invest in an investment opportunity (based on available capital, among other relevant factors, to the extent required). The decision of how any potential investment should be allocated among clients in many cases may be a matter of highly subjective judgment, which will be made by the Manager in its sole discretion; such transactions are not required to be presented to the Company board of directors for approval, and there can be no assurance that any conflicts will be resolved in the Company's favor.

CLNY and/or the Manager may revise its investment allocation policy and may in the future change then-existing, or adopt additional, conflicts of interest resolution policies and procedures designed to support the fair and equitable allocation of investments and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives.

Trade Aggregation Policy

There may be occasions when the Manager decides to purchase or sell the same security or financial instrument for several Clients at approximately the same time. Manager may (but is not obligated to) combine or "bunch" such orders in order to secure certain efficiencies and results with respect to execution, clearance and settlement of orders. Manager is not obligated to include any Client in an aggregated trade. While Manager may affect

trades in this manner to reduce the overall level of brokerage commissions paid or otherwise enhance the proceeds or other benefits of the trade for its clients,

Manager will not favor any Client over any other Client on an overall, long-term basis. Each Client that participates in an aggregated order will participate at the average price, with transaction costs shared pro rata based on each Client's participation in the transaction.

The aggregation of orders could lead to a conflict of interest in the event an order cannot be entirely fulfilled and Colony Capital is required to determine which accounts should receive executed shares and in what order. Colony Capital will generally endeavor to aggregate and allocate orders in a manner designed to ensure that no particular Client or account is favored and that participating Clients are treated in a fair and equitable manner over time.

Manager will receive no additional compensation or remuneration of any kind as a result of the aggregation of client trades; rather, to the limited extent it is applicable, commissions will be charged at a rate as though the trades had not been aggregated.

Manager will act in a manner it believes is fair and equitable for its clients as a group when bunching and price averaging.

Item 13: Review of Accounts

The Company is monitored by a team that is responsible for performance monitoring and reporting, financial risk management and all non-real estate aspects of the Company such as corporate, legal, tax, accounting, financing, hedging and cash distribution. The team also monitors the due diligence process applicable to potential investments for the Company, transaction structuring, acquisition budgets and transaction documentation. Additionally, Manager has investment committee(s) that approves each investment (or other significant investment-related or corporate activity) made on behalf of a Company and the allocation of those investments, as discussed in Item 12.

Currently, the Company files publicly with the SEC unaudited reports on a quarterly basis, providing summary financial and other information about the Company, and audited financial statements of the Company annually. Manager may provide certain investors with information on a more frequent and detailed basis if agreed to by Manager. Manager may advise accounts in the future that do not publicly file quarterly and annual financial statements.

Item 14: Client Referrals And Other Compensation

Manager generally does not engage any parties to solicit clients, nor does it receive compensation from sources other than its clients for providing advice to its Managed Vehicle clients; however, Manager may enter into arrangements with, and compensate solicitors for client referral activities. These solicitation arrangements will be fully disclosed to clients and will comply with the requirements of Rule 206(4)-3 of the Advisers Act.

Additionally, Manager may engage, or cause its clients to engage and compensate placement agents for introducing clients to, and to market and sell interests or shares in clients to, prospective investors, in such client. Manager requires placement agents to have all appropriate licenses and registrations to conduct their business, including when applicable, to be registered as broker-dealers with the SEC and to be members of FINRA. Subject to its duty to obtain best execution, Manager may take such introductions into account as a factor in the selection of brokers to execute portfolio transactions for Managed Vehicles.

Item 15: Custody

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

Manager expects that each Client for which it is deemed to have custody will: (i) be audited at least annually by an independent public accountant; and (ii) distribute its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. Investors should contact Manager if they fail to receive such financials timely.

Item 16: Investment Discretion

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

Item 17: Voting Client Securities

Due to the nature of Manager's investment programs, Manager does not ordinarily receive proxy voting proposals with respect to listed equity securities. However, Manager may, from time to time, receive amendments, consents or resolutions applicable to investments held by Clients (collectively, "proxies"), such as limited partner consents for real estate private equity funds in which Clients may invest, and is generally granted authority to vote and consent on such matters on behalf of Clients.

Manager seeks to vote each Client's proxies in the best interest of that Client and in a manner consistent with its fiduciary duties and has adopted proxy voting policies and procedures designed to ensure that proxies are properly voted and that any conflicts of interest are addressed appropriately. Due to the difficulty of predicting and identifying material conflicts, Manager relies on its personnel, such as Portfolio managers and/or investment management teams, to notify the CCO or designee of material conflicts that may impair Manager's ability to vote proxies appropriately. Manager may have conflicts of interest, for example, where it has a substantial business relationship with a company and a failure to vote in favor of a company management could harm Manager's relationship with company management. If a material conflict exists, the Chief Compliance Officer or designee will take such steps as he or she deems necessary in order to determine how to vote the proxy in the best interests of the client, including, but not limited to, consulting with the legal department, outside counsel, a proxy consultant or the investment professionals responsible for the relevant portfolio investment. In each instance, when exercising its voting discretion, Manager seeks to avoid any direct or indirect conflict of interest between its clients and its voting decision. One Client's best interests with respect to a proxy vote may diverge from the interests of other Clients, joint venture partners, Manager and/or Manager's affiliates. This may result in Manager casting votes for one Client that differs from votes cast for other Clients or in Manager taking other steps to mitigate any conflicts that may arise. In no event, however, will Manager be obligated to vote, or refrain from voting its own securities, securities held by another client or securities held by an affiliate or joint venture partner in a manner that is inconsistent with Manager's view as to the best interests of such holders, simply because a Client has a differing interest.

A copy of Manager's proxy voting policy and information with respect to any specific proxy votes submitted on behalf of the relevant Client may be obtained by contacting our CCO.

Item 18: Financial Information

Not applicable.