

CNI NSHC Advisors, LLC

Form ADV, Part 2A

BROCHURE

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This brochure ("Brochure") provides information about the qualifications and business practices of CNI NSHC Advisors, LLC ("CNI NSHC Advisors" 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.

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 Manager is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

CNI NSHC Advisors last Part 2A on Form ADV was filed on August 1, 2018. This other-than-annual amendment includes the following changes that were made since the last annual update:

This other-than-annual amendment reflects the change of executive management and financial industry affiliations.

This Brochure also includes certain other routine updates and additional information. This Item 2 reflects only material changes made since August 1, 2018 other-than-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"), 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 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

CNI NSHC Advisors, LLC ("CNI NSHC Advisors" 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 and Chief Executive Officer of Colony Capital, and Darren J. Tangen is the President and Chief Financial Officer of Colony Capital.

Colony Capital's Investment Management Businesses

Manager

Manager is an indirect subsidiary of Colony Capital whose advisory business primarily consists of advising NorthStar Healthcare Income, Inc., a Maryland corporation (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 ("Future Clients", and together with the Company and the Managed Vehicles, collectively, "Clients" and each a "Client"). Manager has entered into a staffing agreement with one or more affiliates of Colony Capital under which Colony Capital's affiliates have agreed to make senior management and other personnel available to perform services for Manager.

Manager managed approximately \$2,998,753,000 as of December 31, 2017, 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

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"), (iii) closed-end management investment companies (together with the Managed Funds and the Managed REITs, "Managed Vehicles") registered under the Investment Company Act of 1940, as amended ("Investment Company Act"), and/or (iv) a public statutory trust that intends to be treated as a liquidating trust for purposes of U.S. treasury regulations and any analogous provision of state or local law. 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 NSI 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), CDCF V Investment Advisor, LLC (Delaware) and CNI RECF 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 Manager and Colony Capital provide investment advisory and related services under 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 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 Manager is to provide asset management and other services to the Company, which is qualified as a REIT under the U.S. Internal Revenue Code of 1986, as amended. The Company was formed in October 2010 as a Maryland corporation focused on originating, acquiring, financing and managing a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity housing sector, which the Company defines as assisted living facilities ("ALF"), memory care facilities ("MCF"), skilled nursing facilities ("SNF"), independent living facilities ("ILF") and continuing care retirement communities ("CCRC"), which may have independent living assisted living, skilled nursing and memory care available on one campus. The Company also invests in other healthcare property types, including medical office buildings ("MOB"), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company's investments are predominately in the United States, but it also selectively makes international investments.

The Company's equity investments are generally healthcare properties, which are either structured as net leases to healthcare operators or operated through management agreements with independent third-party operators. The Company's debt investments may consist of first mortgage loans and mezzanine loans. The Company's real estate securities investments may include commercial mortgaged-back securities ("CMBS"), and other securities backed primarily by loans secured by healthcare properties.

Manager will provide its advisory services subject to the oversight of the board of directors of the Company (the "Board"), pursuant to an advisory agreement, and in accordance with the investment objectives, strategies and guidelines approved by the Board. Substantially all of the Company's business is conducted through NorthStar Healthcare Income Operating Partnership, LP, a Delaware limited partnership ("Operating Partnership").

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 which a majority of the members are independent, of the Company and other limited exceptions, Manager will manage the day-to-day operations of the Company and its subsidiaries. Manager will be responsible for the operations identified in the Advisory Agreement (as defined below), including, among others: (i) acquisitions services, such as, among others, (A) serving as the Company's investment and financial advisor, (B) locating, analyzing and selecting potential investments, as well as, negotiating the terms of such acquisitions, (C) overseeing due diligence processes related to prospective investments, and (D) preparing reports regarding prospective investments which include recommendations and supporting documentation necessary for the Board to evaluate the prospective investments; (ii) asset management services, such as (A) investigating, selecting, and engaging and conducting business with such Persons (as defined in the Advisory Agreement) Manager deems necessary to the proper performance of its obligations, (B) monitoring and evaluating the performance of investments of the Company, (C) formulating and overseeing the implementation of strategies for the administration, promotion, management, operation, maintenance, improvement, financing and refinancing, marketing, leasing and disposition of investments, (D) conduct periodic on-site property visits, (E) reviewing, analyzing and commenting on operation budgets and capital budgeting, and (F) coordinating and managing relationships between the Company and any joint venture partners; (iii) accounting and other administrative services, such as, among others, (A) managing and performing the various administrative functions necessary for the management of the day-to-day operations of the Company, (B) providing or arranging for administrative services and items, legal and other services, office space, office furnishings, personnel and other overhead items necessary and incidental to the Company's business operations, (C) maintaining all appropriate books and records, (D) overseeing all reporting, and internal controls, (E) maintaining accounting data and any other information concerning the activities of the Company as shall be needed to prepare and file all periodic financial reports and returns required to be filed with the SEC and any other regulatory agency, and (F) managing and coordinating with the transfer agent the distribution process and payments to stockholders; (iv) stockholder services, such as, among others, (A) managing communications with stockholders and (B) establishing a technology infrastructure to assist in providing stockholder support and service; (v) financing services, such as, among others, (A) identifying and evaluating potential financing and refinancing sources, (B) negotiating, arranging and executing financing agreements, (C) managing relationships with the Company and its lenders, and (D) monitoring and overseeing the service of the Company's debt facilities and other borrowings; and (vi) disposition services, among others, (A) consulting with the Board and providing assistance with the evaluation and approval of potential asset dispositions, sales or other liquidity events and (B) structuring and negotiating the terms and conditions of transactions pursuant to which investments may be sold.

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

Manager does not currently offer wrap fee programs.

Item 5: Fees and Compensation

Fees are separately determined for each Client. As a general matter, 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

Management Fees

The Company's advisory agreement with Manager (the "Advisory Agreement"), and the Operating Company, provides for a monthly management fee, and other fees and expense reimbursements. The monthly management fee, calculated and payable each month in the form of cash and Shares (as defined in the Advisory Agreement), is equal to one-twelfth of one and one-half percent (1.50%) of the Company's most recently available publicly filed aggregate estimated net asset value (the "NAV"), as the NAV may be subsequently adjusted for any Special Distribution (as defined in the Advisory Agreement). For each quarterly period, \$2.5 million shall be paid in the form of Shares, valued at the price per Share equal to the NAV per Share, and the balance will be paid in cash.

Incentive Fees

Pursuant to the limited partnership agreement of the Operating Partnership, the Manager is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital.

Other Fees and Expense Reimbursements

Disposition Fees

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by the Company's independent directors, Manager may receive a disposition fee of 2.0% of the contract sales price of each property sold and 1.0% of the contract sales price of each debt investment sold. The Company does not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by the borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee paid by the borrower in connection with such transaction. If the Company takes ownership of a property as a result of a workout or foreclosure of a debt investment, the Company will pay a disposition fee upon the sale of such property.

Expense Reimbursements

Manager is entitled to receive reimbursements for direct and indirect operating costs incurred by Manager in connection with administrative services provided to the Company. Manager allocates, in good faith, indirect costs to the Company related to the Manager's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the Advisory Agreement. The indirect costs include the Company's allocable share of Manager's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the

Company's affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment expenses and other general and administrative costs and expenses. Other indirect costs include the Managed REIT's allocable share of Colony Capital's compensation (including bonuses and equity compensation) and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Managed REIT's affairs, based upon an expense allocation methodology to calculate the percentage of time devoted by such personnel to the Managed REIT's affairs.. However, there is no reimbursement for personnel costs related to executive officers (although there may be reimbursement for certain executive officers of Manager) and other personnel involved in activities for which Manager receives a disposition fee. Manager allocates these costs to the Company relative to its and its affiliates' other managed companies in good faith and reviews the allocation with the Board, including its independent directors. The Company reimburses Manager quarterly for operating costs (including the asset management fee) based on a calculation for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of its average invested assets; or (ii) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, the Company may reimburse Manager for expenses in excess of this limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. The Company calculates the expense reimbursement quarterly based upon the trailing twelve-month period.

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 Manager does not proceed with a prospective investment for any reason ("Broken Deal Costs")) and is required to reimburse Manager for such investment-related costs if incurred by it. Such expenses may include, without limitation, 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.

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, as there could be an incentive for Manager to: (i) value assets in a manner that increases Manager'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-based or performance-based fees or allocations, this may give rise to potential conflicts of interest. For example, Manager would have an incentive to favor Clients for which it begins receiving incentive fees at a lower "hurdle" rate because Manager would benefit more from the improved performance of such Client. Similarly, Manager would have an incentive to favor those Clients that pay a greater management fee 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 would receive greater compensation by doing so.

The allocation of Manager's expenses among Clients may also create conflicts of interest. Manager 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 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 receives incentive fees. This creates a conflict of interest and may create an incentive for Manager 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 each Client. 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.

Timing and Deduction of Fees

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

Item 7: Types of Clients

Manager currently provides investment advice only to the Company, but it may in the future provide investment advice to a Managed Vehicle and Future 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. 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 is qualified as a REIT under the U.S. Internal Revenue Code of 1986, as amended. The Company primarily invests in HRE directly through the use of equity, debt and other securities instruments and indirectly through joint ventures. 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

Manager will invest in a broad spectrum of HRE 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. The Company's primary investment objective is to pay attractive and consistent current income through cash distributions, to preserve, protect and return capital contributions and to realize capital

appreciation through the potential sale of the assets or another liquidity event. Manager will utilize equity investments to generate capital appreciation and debt investments to generate income while preserving capital and managing risk.

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

- *Real Estate Equity.* The Company invests in equity investments, directly or through joint ventures, focused on properties in the mid-acuity senior housing sector, such as assisted living facilities (“ALF”), memory care facilities (“MCF”), skilled nursing facilities (“SNF”), independent living facilities (“ILF”) and continuing care retirement communities (“CCRC”). Equity investments may also include medical officer buildings (“MOB”), hospitals, rehabilitation facilities and ancillary healthcare service businesses. The investments are predominantly in the U.S., but may include international investments. The healthcare properties generally operate under net leases or pursuant to management agreements with healthcare operators.
- *Real Estate Debt.* The Company may originate, acquire and/or manage healthcare related debt investments, which may include mortgage loans or mezzanine loans to owners of healthcare real estate.
- *Healthcare Related Securities.* The Company may invest in healthcare related securities which include commercial mortgage backed securities, or CMBS, backed primarily by loans secured by healthcare properties.

Leverage Strategy

Manager may employ leverage on behalf of the Company. The Company utilizes asset-level financing as part of its investment strategy to leverage its investments while managing refinancing and interest rate risk. Manager typically finances our investments with medium to long-term, non-recourse mortgage loans, though our borrowing levels and terms vary depending upon the nature of the assets and the related financing. In addition, the Company has a revolving line of credit to provide additional liquidity as needed. .

Hedging

Manager may hedge the Company's positions by utilizing 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. Manager does not use hedging for speculative purposes.

Material Risks

Risk of Loss

An investment in Clients involves risk. There is no certainty of return with respect to any such investment. There is no guarantee that Clients will achieve their 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 Manager's investment strategies. Investors should refer to the risk factors in Clients' 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 Client, including the risks described in such Client'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 Clients. 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.

Healthcare Real Estate-Related Risk

- *Concentration in Healthcare Properties.* Client's investments are concentrated in healthcare properties, which exposes it to greater economic risk than if its portfolio were to include multiple industries or asset classes. As a result of Client's concentration of healthcare real estate investments, its exposure to the risks inherent in investments in the healthcare sector is increased, making it more vulnerable to a downturn or slowdown in the healthcare sector. The healthcare industry is highly regulated, and changes in government regulation and reimbursement can have material adverse consequences on its participants, some of which may be unintended. The healthcare industry is also highly competitive, and Client's operators and managers may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. Client's tenants, operators and managers compete for labor, making their results sensitive to changes in the labor market and/or wages and benefits offered to their employees. If Client's tenants, operators and managers are unable to successfully compete with other operators and managers by maintaining profitable occupancy and rate levels or controlling labor costs, their ability to meet their respective obligations to Client may be materially adversely affected. Manager cannot assure Client that future changes in government regulation will not adversely affect the healthcare industry, including its senior housing operations, tenants and operators, nor can Manager be certain that Client's tenants, operators and managers will achieve and maintain occupancy and rate levels or labor costs levels that will enable them to satisfy their obligations to Client. Any adverse changes in the regulation of the healthcare industry, or the competitiveness of Client's tenants, operators and managers, or costs of labor, could have a more pronounced effect on Client than if it had investments outside the seniors housing and healthcare industries.
- *Regulation of the Healthcare Industry.* The healthcare industry is heavily regulated by federal, state and local governmental bodies. Healthcare facility operators, including those in the senior housing sector, generally are subject to extensive laws and regulations covering, among other things, licensure, certification for participation in government programs, and relationships with physicians and other referral sources. Changes in these laws and regulations could negatively affect the ability of Clients' operators to meet their obligations. In addition, failure by Clients' operators to comply with the laws and regulations may materially adversely affect Clients' business and financial condition.
- *Licensure, Certification and CON.* The operators of healthcare real estate properties owned by Clients, including hospitals, SNFs and ALFs, may be subject to extensive state licensing and registration laws. The failure of operators to maintain or renew any required license, certification, accreditation or regulatory approval could prevent a facility from operating in the manner intended by the operators which could have an adverse effect on the ability of Clients' operators to meet their obligations. Certain of Clients' healthcare properties may also be subject to a variety of state certificate of need ("CON") laws and regulations, which may restrict the ability of operators to add new properties or to expand an existing facility's size or services. In addition, CON laws and regulations may constrain the ability of Clients to transfer responsibility for operating a particular facility to a new operator.
- *Reform of the Healthcare Industry.* The Patient Protection and Affordable Care Act of 2010 (ACA) impacted the healthcare marketplace by decreasing the number of uninsured individuals in the United States through the establishment of health insurance exchanges to facilitate the purchase of health insurance, expanded Medicaid eligibility, subsidized insurance premiums and included requirements and incentives for businesses to provide healthcare benefits. The ACA remains subject to continuing and increasing legislative and administrative scrutiny, including current efforts by Congress and the current presidential administration to repeal, alter and replace the ACA in total or in part. In 2017, Congress unsuccessfully

sought to replace substantial parts of the ACA with different mechanisms for facilitating insurance coverage in the commercial and Medicaid markets, but Congress was able to enact legislation eliminating the tax penalty for individuals who do not purchase insurance. Additionally, the Centers for Medicare and Medicaid Services (CMS) discontinued providing cost-sharing reduction subsidies to insurance providers, which is expected to have the result of increasing the cost of insurance premiums. Further, CMS has begun approving waivers permitting states to alter state Medicaid programs by, among other things, requiring individuals to meet certain requirements, like work requirements, in order to maintain eligibility for Medicaid. These and other actions may impact the insurance markets and reduce the number of individuals purchasing insurance or qualifying for Medicaid and may negatively impact the operations and financial condition of our tenants, operators and managers, which in turn may adversely impact us. Congress may revisit ACA or Medicaid reform legislation in 2018. If the ACA is repealed or further substantially modified, or if implementation of certain aspects of the ACA are suspended, such actions could negatively impact the operations and financial condition of our tenants and operators, which in turn may adversely impact the Company.

- *Patient Care Related Legal Actions Risk.* Clients' operators may be subject to claims that their services have resulted in resident injury or other adverse effects. The insurance coverage maintained by operators, whether through commercial insurance or self-insurance, may not cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and litigation may not, in certain cases, be available to the operators due to state law prohibitions or limitations of availability. As a result, the operators operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits.
- *Healthcare Fraud and Abuse Enforcement.* Healthcare providers, including, but not limited to SNFs and hospitals (and some senior housing facilities), are subject to federal and state laws and regulations that govern their operations and arrangements with referral sources. These laws include: (i) laws requiring providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service; (ii) state anti-kickback laws and the Federal Anti-Kickback Statute, which generally prohibit persons from offering, providing, soliciting, or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a government healthcare program, such as Medicare or Medicaid; (iii) the federal physician self-referral law (commonly known as the Stark Law), which generally prohibits the submission of claims to Medicare for payment that were the result of a referral by a physician who has a financial relationship with the health service provider and analogous state laws; and (iv) the Civil Monetary Penalties Act and the Federal False Claims Act, including its "whistleblower" provisions, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services. These lawsuits can involve significant monetary damages and award bounties to private plaintiffs who successfully bring these suits. Additionally, certain laws, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the ACA have broadened the federal fraud and abuse laws to enhance both the scope and the penalties for non-compliance with the laws. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments and exclusion from government healthcare programs, any of which could have a material adverse effect on the ability of Clients' operators to meet their financial obligations. Additionally, private lawsuits brought under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry have resulted in increased enforcement activity and can involve significant monetary damages and awards to private plaintiffs who successfully bring these suits. Typically, insurance is not available to cover such losses.
- *Demand for Assisted Living Services.* Events could occur that could adversely affect the ability of seniors to afford the monthly resident fees or entrance fees (including downturns in the economy, housing market, consumer confidence or the equity markets) and, in turn, materially adversely affect Manager's business,

financial condition and results of operations and Clients' abilities to make distributions. Costs to seniors associated with assisted living services are generally not reimbursable under government reimbursement programs such as Medicare and Medicaid. Only seniors with income or assets meeting or exceeding the comparable median in the regions where facilities will be located typically will be able to afford to pay monthly resident fees for the mid-acuity type senior housing facilities Clients seek to acquire. Economic downturns, softness in the housing market, lower levels of consumer confidence, reductions or declining growth of government entitlement programs, such as social security benefits, stock market volatility and changes in demographics could adversely affect the ability of seniors to afford the monthly resident fees or entrance fees for senior housing facilities.

- *Reductions in Reimbursements.* Reimbursement rates from third-party payors, including Medicare and Medicaid, have been reduced in the past and could be reduced again in the future, which would materially adversely affect the financial condition, results of operations and the ability to make distributions to Clients. A Client's ability to generate revenue and profit influences the underlying value of their mid-acuity senior housing facilities. Changes in the reimbursement rate or methods of payment from third-party payors, including Medicare and Medicaid, or the implementation of other measures to reduce reimbursements, have in the past, and could in the future, result in a substantial reduction in Clients' operators' revenues and, therefore, their operators' ability to pay rent.
- *Adverse Trends.* The healthcare industry, including the senior housing sector, is currently experiencing:
 - changes in the demand for and methods of delivering healthcare services;
 - changes in third-party reimbursement policies;
 - significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas;
 - continued pressure by private and governmental payors to contain costs and reduce payments to providers of services;
 - increased scrutiny of billing, referral and other practices by federal and state authorities; and
 - increased "whistleblower" litigation activity under the federal False Claims Act.

These factors may adversely affect the economic performance of some or all of Clients' targeted senior housing and other healthcare-property operators and, in turn, Clients' lease revenues and Clients' abilities to make distributions.

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 Clients' investments, all of which could adversely affect their results of operations. Clients may incur substantial losses and need to establish significant provisions for losses or impairment. Manager manages a diversified portfolio 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 Clients' 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 Clients' business plans. Clients 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 Clients 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 Clients' CRE investments as well as their ability to originate, sell and securitize loans, as applicable, which would significantly harm Clients' 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 Clients to successfully acquire investments and may also adversely affect the performance of Clients' investments.

The financial performance of Clients 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 Clients' 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, Clients' 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 Clients' control.

In addition, interest rates may impact Clients' 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 Clients' values to be more volatile than they would be in the absence of such leverage. In addition, to the extent a strategy employed on behalf of Clients is dependent on leverage, the availability (or lack thereof) and cost of financing may significantly affect the ability of Clients to execute their investment strategies.
- *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, Clients may be obligated to bear defense, settlement, and other costs (which may be in excess of insurance coverage therefore provided by Clients at such Client's expense for such purposes), and Manager may be entitled to indemnification under, and subject to the terms of, Clients' investment agreements and/or other agreements entered into by Clients.

- *Risky and Illiquid Investments.* Real estate and related investments are generally risky and illiquid and there can be no assurance that an investment in Clients will be realized 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 Client.

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 Clients directly. As a result, Clients' ability to sell 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 Clients' ability to sell properties in certain circumstances. These considerations could make it difficult for a Client to sell or dispose of any of its assets even if a disposition were in the best interests of its investors. As a result, a Client'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 Clients.

- *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.* Clients may invest in CRE assets located in foreign countries. The business and financial results of Clients 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 U.S., many non-U.S. jurisdictions in which Clients 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.
- *Competition.* Clients face competition from other real estate investors, some of which have greater financial resources, including publicly-traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors and that competition may limit the amount of new investments that Manager is able to cause its Clients to acquire. Manager may not be able to compete successfully for investments on behalf of Clients. 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 Managed Vehicles and the number of entities and the amount of funds competing for suitable investments may increase. If these events continue to occur, Clients may experience lower investment performance. There can be no assurance that Manager will be able to locate and complete investments for Clients that satisfy their respective rate of return objectives or realize upon their values or that Clients will be able to invest fully their available capital, which would have an adverse impact on returns.
- *Joint Ventures.* Clients 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 Clients 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 Clients' 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 Clients' instructions or requests or contrary to Clients' policies or objectives; and
- the terms of the joint ventures could restrict Clients' ability to sell or transfer their interests to a third party when it desires on advantageous terms, which could result in reduced liquidity.

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

- *Manager Risk.* Clients are subject to the risk that Manager's purchases, sales, and/or management of investments on behalf of Clients may not produce the desired results and may have an adverse impact on Clients. Clients 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 Clients or be disruptive to the services provided to Clients.
- *Cyber Security Risk.* As the use of technologies, such as the internet, has become more common in conducting business, Clients 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 Clients to lose proprietary information, corrupting data, or causing operational disruption, including denial-of-service attacks on websites. A cyber security failure could cause Clients 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 Clients. 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.* Clients are subject to the risk that they will lose the services of key personnel. It may be difficult or disruptive for Clients 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, Clients could face substantial risk of loss from environmental claims based on environmental problems associated with their investments. Clients 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. Clients may experience environmental liability arising from conditions not known to them.

Real Estate-Related Risk

- *Real Estate Risk.* 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 Clients can realize.

- *Casualty Losses; Uninsurable Losses.* Manager expects to maintain or cause Clients 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. Clients 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 Client's security and decrease the value of the property. For debt investments, Clients 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 Clients 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.

Clients are exposed to the risk that the tenants/operators of properties in which they invest may not be able to meet their obligations to Clients or other third parties, which may result in their bankruptcy or insolvency. Although the leases and loans permit Manager and Clients 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 Clients during the bankruptcy proceeding. Furthermore, dealing with a tenant/operator's bankruptcy or other default may divert Manager's attention and cause Clients to incur substantial legal and other costs. Certain tenants/operators/advisors may operate or manage properties of Manager's competitors, which may create conflicts of interests that may harm Clients. Furthermore, 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 Client 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 Clients' investments may consist of loans or securities, or interests in pools of securities, which 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 before Clients. After repaying the senior creditors, such obligor may not have any remaining assets to repay its obligations to remaining investors. Where debt senior to Clients' debt investments exists, the presence of inter-creditor arrangements may limit a Client'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, Clients 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.* Clients 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 Clients 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 CRE loans, which led to the financial crisis of 2007-2008, and which may reoccur under similar circumstances.

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 Clients' 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 Clients, Clients 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 Clients. 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 Clients retain or invest in the equity interests of a CDO, they are 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.* Clients' investments in CRE 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 Clients' 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 Client 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.

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 the Managed Vehicles. 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. The Manager and its affiliates are not required to manage any one Client as its sole and exclusive function, and the 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, the Manager or its affiliates may have business arrangements with related persons/companies that are material to its advisory business or to the Clients. 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 Clients. 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. The 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, 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. Investment opportunities sourced by the Manager's investment professionals are allocated to one or more Managed Vehicles, in accordance with the allocation policy adopted by the Manager and the Affiliated Advisers and approved by each Managed Vehicle from time to time. (See Item 12: Brokerage Practices — Allocation Policy.)

The Manager may recommend that Clients invest in, or engage in transactions with, other Managed Vehicles or affiliates of Colony Capital. The Manager has an incentive to favor investments in or between, or corporate combinations, reorganizations or other transactions between or among, such entities that may increase the 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 the 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 the 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. The 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, the 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, the 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 the Manager buys or sells securities or other investments for Clients if the Manager feels that there is a possibility that the personal trade would benefit from the Manager's investment activities.

All personnel of the Manager and the Affiliated Advisers are required to annually certify that they have complied with the Code and the 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

The 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-investments by the Manager and its personnel. The Manager and the Affiliated Advisers maintain one or more lists of restricted securities in which the 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

The 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 the Manager may execute cross trades among Clients. The 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 the Manager's internal policies and procedures. The 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, the Manager provides information on the fee related to the cross trade to the board of directors of the applicable 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 Clients. Any allocation of investments among Clients by the Manager 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 Clients' Governing Documents will control. The Manager 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 may allocate a particular investment among Clients unequally, 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

The Manager seeks to minimize the cost and expense of investment transactions effected on behalf of Clients 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 may aggregate assets among Clients in connection with a portfolio sale in order to seek best execution for each Client. In such instances, the applicable Client shares transaction expenses on a pro-rata basis.

The 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 Clients, such transactions will be allocated to brokers and dealers on the basis of the Manager's best execution policies. The factors considered in selecting and approving brokers-dealers that may be used to execute trades for Clients' 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 Manager's own research effort. To the best of 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.

If Manager makes an error while placing a trade for a Client, Manager will (i) seek to correct the error promptly in a way that mitigates any losses, (ii) compensate the Client for actual losses directly resulting from a trade error, and (iii) bear any costs associated with correcting any errors. Manager will generally not net gains and losses associated with multiple errors related to separate investment decisions, but gains and losses stemming from an interrelated set of errors may generally be netted.

Allocation Policy

The Manager will allocate investment opportunities that may be suitable for Clients and Colony Capital in accordance with Colony Capital'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 Clients 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 or Future Clients 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 Clients' board of directors for approval, and there can be no assurance that any conflicts will be resolved in a Client's favor.

The Manager and/or the Affiliated Advisers may revise the 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 effect 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 Manager is required to determine which accounts should receive executed shares and in what order. Manager 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 Manager utilizes 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, the 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. The Manager may provide certain investors with information on a more frequent and detailed basis if agreed to by the Manager. The Manager may advise accounts in the future that do not publicly file quarterly and annual financial statements.

Item 14: Client Referrals And Other Compensation

The Manager generally does not engage any parties to solicit clients, nor does it receive compensation from sources other than the Company and/or Future Clients for providing advice to its Managed Vehicles;

however, the 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, the 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. The 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, the 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).

The 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 the Manager if they fail to receive such financials timely.

Item 16: Investment Discretion

As a general rule, the 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, the 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, the Manager is guided by the mandate selected by the Client and any investment guidelines or restrictions imposed by the Client. The 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 the Manager's investment programs, the Manager does not ordinarily receive proxy voting proposals with respect to listed equity securities. However, the 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. In addition, the Manager's portfolio managers and/or investment management teams are required to remain aware of any proxy that requires a vote, consent or election. Further, the Manager's portfolio managers and/or investment management teams determine the appropriate manner in which such proxy shall be voted, including circumstances in which it is most appropriate to abstain from voting, and maintain documentation of how each proxy was voted and provide such documentation to the CCO or designee periodically.

The Manager seeks to vote Clients' 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, the 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 the Manager's ability to vote proxies appropriately. The 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 the 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, the Manager seeks to avoid any direct or indirect conflict of interest between 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, the Manager and/or the Manager's affiliates. This may result in the Manager casting votes for one Client that differs from votes cast for other Clients or in the Manager taking other steps to mitigate any conflicts that may arise. In no event, however, will the 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 the Manager's view as to the best interests of such holders, simply because a Client has a differing interest.

A copy of the 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.