

FORM ADV PART 2A: FIRM BROCHURE

Rialto Capital Management, LLC

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This brochure provides information about the qualifications and business practices of Rialto Capital Management, LLC and its subsidiaries (collectively “Rialto” or “Adviser”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“CCO”) at (305) 485-2077 or email at liat.heller@rialtocapital.com. Additional information about Rialto is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Rialto is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.



Item 2: Material Changes

This “Item 2 – Material Changes” summarizes material changes made to the Brochure since the previous annual updating amendment dated February 28, 2018. This Brochure replaces the firm’s prior Brochure as of the effective date noted on the cover page.

The material changes include changes relating to a change in ownership of Rialto (as described in Item 4) and a change in Rialto’s fiscal year-end from November to December.

Item 3: Table of Contents

Item 2: Material Changes	2
Item 3: Table of Contents	3
Item 4: Advisory Business.....	4
Item 5: Fees and Compensation	5
Item 6: Performance Based Fees and Side-by-Side Management	7
Item 7: Types of Clients	8
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9: Disciplinary Information	17
Item 10: Other Financial Industry Activities and Affiliations	17
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	21
Item 12: Brokerage Practices	22
Item 13: Review of Accounts	22
Item 14: Client Referrals and Other Compensation	23
Item 15: Custody.....	23
Item 16: Investment Discretion	23
Item 17: Voting Client Securities	23
Item 18: Financial Information	24

Item 4: Advisory Business

Rialto Capital Management, LLC (collectively with its subsidiaries as described herein, “Rialto” or the “Adviser”), a Delaware limited liability company, was formed in 2007 and operates as an integrated investment and asset management business with professionals operating from offices throughout the United States and Europe. In 2018, Rialto and its parent company were acquired by various funds managed by Stone Point Capital, LLC and certain Rialto employees (the “Transaction”). Rialto is led by Jeffrey Krasnoff, Chief Executive Officer, and Jay Mantz, President.

Rialto Capital Management, LLC registered with the SEC as an investment adviser in 2012. Together with its affiliates, Rialto Partners GP, LLC, Rialto Partners GP II, LLC, Rialto Mezzanine Partners GP, LLC, RCCF GP, LLC, RCCF GP II, LLC, RCCF GP III, LLC, RCCF GP IV, LLC, Rialto Partners GP III - Debt, LLC, Rialto Partners GP III - Property, LLC, Rialto Credit Partnership GP, LLC and Rialto Absolute Partnership GP (“General Partner(s)”), Rialto provides investment advice to unregistered pooled investment vehicles (the “Funds”) and separately managed accounts and also sub-advises certain pooled investment vehicles and a registered real estate investment trust (collectively, its “Clients”). Unless the context otherwise requires, the General Partners are included in the term “Rialto.” Any persons acting on behalf of the General Partners are subject to the supervision and control of Rialto in connection with any investment advisory activities. In accordance with SEC guidance, the General Partners are registered as investment advisers in reliance on one Form ADV filed by Rialto. While Rialto is the managing member controlling the General Partners, Lennar Corporation, Rialto’s parent company prior to the Transaction, retained a material economic interest in the General Partners.

Rialto’s relying advisers, Rialto Capital Management Luxembourg Sarl and Rialto Capital Management Netherlands B.V. are registered under the Advisers Act pursuant to Rialto’s registration in accordance with SEC guidance. Rialto (including the General Partners), and these relying advisers operate as a single investment advisory business. Unless the context otherwise requires, these relying advisers are included in the term “Rialto”.

Clients invest primarily in real estate properties, real estate loans and real estate related securities located in the U.S. and Europe. The Rialto Funds rely primarily on exemptions from registration under Section 3(c)(7) and Section 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). Interests in the Funds also are not registered under the Securities Act of 1933 (“Securities Act”) in reliance on exemptions provided by Section 4(a)(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

Rialto provides investment advice directly to the Funds and not individually to their limited partners or other investors. Rialto manages each Fund’s assets in accordance with the objectives and strategy as defined in each Fund’s private placement memorandum and/or limited partnership agreement or other operating agreement (“Governing Fund Documents”). All terms are generally

established at the time of a Fund's formation and investors may not restrict the Fund's investments except as indicated in the Governing Fund Documents.

Additionally, Rialto provides investment advice to its other Clients in accordance with the objectives and strategy as defined in each Client's investment management agreement or sub-advisory agreement (the "Management Agreements" and, together with the Governing Fund Documents, the "Governing Documents"). Rialto primarily provides discretionary advice to its Clients but it does have certain separately managed account Clients to which it provides non-discretionary advice.

As of December 31, 2018, Rialto managed approximately \$3.75 billion on a discretionary basis and approximately \$732 million on a non-discretionary basis.

Item 5: Fees and Compensation

Rialto's revenue is derived from investment management fees and carried interest allocations. Rialto and its affiliates also earn additional fees for the provision of other services to the Clients as agreed to by the Clients. While a general description of these fees is provided below, specific terms of these arrangements are detailed in the Governing Documents and other agreements that Rialto enters into with each Client.

Investment Management Fee

Rialto's investment management fees vary by Client and are payable quarterly in advance. Fees generally range between 0.25% to 1.5% per annum based on capital contributions/commitments less contributions that have been invested in investments that have been liquidated, sold, or written off, invested capital, or principal as variously defined within the applicable Governing Documents. With respect to some Funds, commitments in excess of certain thresholds are subject to a discounted fee pursuant to negotiated side letter provisions.

Certain Clients pay investment management fees quarterly in advance and, in certain cases, as provided for in the Governing Documents agreed upon with the Clients, such fees are not refundable.

Rialto reserves the right to waive or reduce these fees for certain investors, including employees and others as may be determined at Rialto's sole discretion.

Other Fees

Rialto and/or its affiliates receive additional fees for other services they provide to the Clients, and these include:

Investment-Level Fees

Subject to the terms of the relevant Client's Governing Documents, Rialto earns fees for performing various "Investment-Level Services" on behalf of its Clients, and such fees may

include due diligence fees, asset management fees and in-house professional services fees (“Investment-Level Fees”). Investment-Level Services include asset-level field due diligence, loan file due diligence, loan and real estate owned asset management services, asset-level accounting, loan servicing and other similar services that outside professionals or outside consultants may otherwise typically perform for similar clients. Investment-Level Fees vary and are more fully described in the applicable Client’s Governing Documents, which further provide that Investment-Level Fees are to be paid or reimbursed at cost, fixed or market rates as determined by Rialto in good faith and as approved by investors. These fees do not offset any other fees payable to Rialto or its affiliates.

Property Level Fees

In certain instances, Rialto’s affiliates may earn fees for performing property, construction, or development, management, leasing and related or similar services with respect to assets or investments held by the Clients. These fees vary by Client and are detailed in Client’s Governing Documents. In cases in which such fees are not predetermined in the Governing Documents, they are required to be approved by the relevant Client or to be consistent with those generally available in arm’s length transactions.

Servicing Fees

Rialto’s affiliates, Rialto Capital Servicing, LLC and Quantum Servicing Corporation (“Rialto Servicing”), earn a fee for acting as a servicer with respect to loans held by certain Clients. In general, servicing fees vary and are calculated either based a cost plus methodology or on the unpaid principal balance of the loan, while liquidation fees are charged based on the amounts recovered.

Special Servicing Fees

Rialto’s affiliate, Rialto Capital Advisors, LLC (“Rialto Advisors”), is Rialto’s asset management arm and earns fees for acting as a special servicer with respect to certain pools of commercial mortgage-backed securities (“CMBS”) held by certain Clients. These fees are deal-specific and are detailed in the agreements that govern the servicing of CMBS pools and other pools of mortgage loans (“Pooling and Servicing Agreements”). These fees are generally paid by the applicable CMBS trust and borrowers and do not offset any other fees payable to Rialto or its affiliates.

Other Expenses

Clients, including its Funds (and therefore, investors in the Funds), bear certain other expenses (directly or by reimbursing the General Partners or Rialto) which vary from Client to Client, as provided in the Governing Documents. These expenses include, but are not limited to: (i) organizational expenses; (ii) fees, costs and expenses related to evaluating, purchasing, holding, valuing, monitoring, operating, selling or liquidating an investment, (iii) placement agent fees; (iv) investment management fees; (v) reasonable costs and expenses incurred by members of a Fund’s Limited Partner Advisory Committee (“LPAC”); (vi) third party fees, costs and expenses incurred in connection with limited partner transfers; (vii) financing, commitment, origination and similar fees, costs and expenses of financing with respect to a Fund entity; (viii) costs and

expenses related to background checks on borrowers, guarantors and other third parties dealing with a Fund entity; (ix) governmental fees, taxes and other charges levied against a Fund entity and fees, costs and expenses incurred in connection with any tax or other governmental audit, investigation, settlement or review with respect to a Fund entity; (x) custodial, accounting, audit, administrative and similar fees, costs and expenses of a Fund entity incurred with a third party; (xi) costs and expenses related to the preparation, printing, distribution, mailing or filing of Fund-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s and other communications; (xii) costs and expenses related to other governmental, administrative, compliance or regulatory filings or reports (including Form PF) and any administrative, regulatory, reporting, filing, or other compliance requirements (including registrations, filings and compliance with matters contemplated by the AIFMD), excluding costs of Rialto's general compliance with its regulatory obligations; (xiii) fees, costs and expenses related to a depository and to representative(s) and paying agent(s), and any other types of fees, costs, expenses, liabilities or obligations as required under applicable laws or regulations; (xiv) fees, costs and expenses associated with information technology services and any computer software or hardware or electronic equipment (including the cost of software, applications, periodicals, databases or systems) purchased from third party vendors that are used for the Funds' purposes; (xv) reasonable out-of-pocket expenses incurred by managers, directors, officers, members, partners, employees or other agents of the General Partners, Rialto or their respective affiliates for travel, lodging, meals, and other expenses directly related to conducting diligence on investment opportunities (whether or not consummated); (xvi) directors and officers liability, errors and omissions liability, fidelity bond, cyber-security, crime coverage and general partnership liability premiums and other insurance, including any fees, costs and expenses related to any retention or deductibles to the extent such costs relate to the Fund; (xvii) costs and expenses related to the wind-up, liquidation, termination or dissolution or other similar types of events of a Fund entity; (xviii) advisory, consulting or similar expert or professional fees and out-of-pocket expenses relating to such functions relating to a Fund entity; (xix) costs and expenses associated with protecting the confidential or non-public nature of any information or data to the extent such costs relate to the Fund; and (xx) legal fees (including collection and enforcement) incurred with a third party and all disbursements relating to legal or regulatory matters or proceedings (including transactional, investigatory and litigation costs and expenses), and the amount of any judgments or settlements paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for relating to a Fund entity.

Investors should review the applicable Governing Documents to fully understand all fees and expenses borne by the relevant Clients and, indirectly, by the investors in such Clients.

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

Rialto and/or the General Partners are entitled to receive performance based fees pursuant to the Governing Documents executed with certain of its Clients.

Specifically, a portion of each Fund's net investment profit is allocated to the capital account of its General Partner as "carried interest." The manner of calculation of such carried interest is

disclosed in the Governing Fund Documents and varies by Fund. As is the case with investment management fees, Rialto and its subsidiaries reserve the right to waive or reduce carried interest for certain investors, including employees, a limited number of strategic partners, advisers and consultants and others, as may be determined by Rialto or at the General Partners' sole discretion.

Rialto also charges certain incentive fees to its separately managed account and sub-advised Clients on a case by case basis as determined by the relevant Client's Management Agreement.

Rialto and/or the General Partners' receipt of performance fees may create an incentive for Rialto to make investments on behalf of the Funds and its Clients that are riskier or more speculative than would be the case in the absence of such compensation. However, Rialto believes that this conflict is mitigated because carried interest and incentive fees are not earned until the Client achieves stated hurdle rates. Furthermore, Rialto believes that its interests are aligned with those of the Funds because Rialto and/or the General Partners and members of Rialto's management team have committed their capital to the Funds.

Rialto may also be incentivized to allocate the most lucrative investment opportunities to Clients that are charged the highest performance fee, rather than to Clients for which the opportunity may be most suitable. Rialto recognizes its fiduciary duty to Clients and will endeavor to make a good faith determination to allocate such opportunities in accordance with the Clients' Governing Document and Rialto's investment allocation policy.

Item 7: Types of Clients

Rialto provides investment advisory services to separately managed accounts and Funds. With respect to the Funds, Rialto provides the advisory services to the Funds, and not individually to the investors in the Funds. Investors in the Funds and the separate account clients include, but are not limited to, high net worth individuals, pension plans (corporate, state and foreign), sovereign wealth funds, endowments, foundations, banks, insurance companies, pooled investment vehicles (e.g., funds-of-funds), trusts, estates or charitable organizations, and corporate or business entities.

Certain Funds require minimum commitments from investors as outlined in the relevant Governing Fund Documents; however, Rialto maintains discretion to accept less than these amounts.

An investor in the Funds must meet certain suitability qualifications, such as being an "accredited investor" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act and a "qualified purchaser" as defined in the Investment Company Act. Also, investors will be required to make certain representations that they (i) are acquiring an interest for their own account, (ii) received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment, and (iii) have the ability to bear the economic risk of an investment in the Fund. Details concerning applicable investor suitability criteria are set forth in

the respective Governing Fund Documents and subscription materials which are furnished to each investor.

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

Methods of Analysis

Rialto has an integrated investment and operating platform, including in-house resources with the capability to underwrite and diligence complex portfolios of real estate debt and assets, workout and restructure distressed debt, manage real estate owned assets, and maximize cash recoveries and profits. Utilizing its integrated operating platform and established relationships with market parties, Rialto is able to source, close and manage debt, equity and securities investments to generate risk-adjusted returns for Clients. Rialto's dedicated team of underwriting professionals performs in-depth asset level due diligence which is complemented by market based research to confirm underwriting assumptions. Rialto does not rely on any single real estate data provider but focuses on specialists for each local market and asset type. Rialto has access to a variety of CMBS-related data providers and receives information from a variety of industry organizations and publications.

Investment Strategies

Clients invest primarily in real estate properties, real estate loans and real estate related securities located in the U.S. and Europe.

Risks of Loss

All investing involves a risk of loss and identifying and evaluating potential investments is challenging. Many of Rialto's investment decisions will depend upon the ability of its employees to obtain relevant information and will rely upon information provided by third parties. Rialto's investment strategy entails substantial risk and could result in significant losses over short or long periods of time. An investment in a Fund is a speculative investment and is not intended as a complete investment program. Rather, it is designed for sophisticated investors who fully understand and are capable of bearing the risk of such an investment. Rialto makes no guarantee or representation that its Clients, including the Funds, will achieve their investment objective or that a Fund's limited partners or other investors will receive a return of their capital.

Certain risks associated with Rialto's investment strategy are described below. This list is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with an investment. Prospective Clients and Fund investors are therefore encouraged to carefully review the applicable Governing Documents before investing.

Key Risks of Significant Investment Strategies

Risks Related to Real Estate Investments

A concentration of investments in the real estate industry may increase the volatility of a Client's returns and will increase a Client's exposure to the risk of downturns in the real estate industry in comparison to a portfolio that also included other sectors of the economy. As a result, distress in

the real estate industry could adversely affect returns to a Client or investors in a Fund and may result in the loss of all or a part of a Client's account or the investor's investment in a Fund.

There is no assurance that the investments made by a Client will be profitable or that cash flow will be available for distribution to Clients or Fund investors. For example, operating revenues may depend, in part, upon receipt of rental payments from tenants under leases. Furthermore, because real estate, like many other long-term investments, has historically experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the collateral underlying the investments (and thereby affect the value of investments). The cash flow and value of the investments will depend on many factors beyond Rialto's control, including: changes in general economic or local conditions; changes in supply of or demand for competing properties in an area; changes in interest rates, which may affect, among other things, the ability of a Client to enter into a favorable transaction or to sell all or part of an investment; fluctuations in foreign currency exchange rates vis-à-vis the U.S. dollar, which may affect the net returns of a Client expressed in U.S. dollars; the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and tenant safety; unavailability or cost of mortgage funds which may render the construction, leasing, sale or refinancing of a property difficult; the financial condition of borrowers and of tenants, buyers and sellers of property; changes in tax rates and other operating expenses (including the cost and availability of insurance of all types (particularly windstorm and flood insurance); the imposition of rent controls; energy, materials and/or labor shortages or the cost thereof; various uninsured or uninsurable risks; natural disasters; political instability; environmental disasters; war; and terrorism. There is no assurance that there will be a ready market for the investments because investments in real estate and real estate loans are generally less marketable than many other types of investments and are illiquid due to the unavailability of reliable or any market quotations. Accordingly, the ability of a Client to vary its portfolio in response to changes in economic or other conditions may be limited. In addition, the acquisition, ownership and disposition of real estate and real estate loans entail litigation risks. Any one or more of the foregoing risks could materially adversely affect the return on the investments and could cause the loss of all or a part of a Client's investments.

Risks Related to Debt Investments

Commercial lending depends upon the ability of the related real estate projects to generate income sufficient to pay debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements, and in the case of commercial loans that do not fully amortize over their terms, retain sufficient value to permit the borrower to pay off the loan at maturity through a sale or refinancing of the mortgaged property. The ability of borrowers to repay commercial mortgage loans typically depends upon the successful operation and, if applicable, construction or rehabilitation, of the related real estate project and the availability of financing. Any factor that affects the ability of the project to generate sufficient cash flow could have a material adverse effect on the value of such loans. These factors include: (i) whether cash flow meets fixed obligations; (ii) changes in general and local economic conditions, including interest rates and other local market conditions; (iii) tenant credit risks; (iv) the availability of financing, which may make the operation, sale or refinancing of a property difficult or unattractive; (v) vacancy and occupancy rates; (vi) fluctuation of construction and operating costs;

(vii) regulatory requirements, including zoning and rent control; (viii) environmental concerns; (ix) project and borrower diversification; (x) vandalism (with attendant security costs); (xi) uninsured losses; (xii) restrictions and compliance costs imposed by the Americans with Disabilities Act, the Fair Housing Act, as amended, and similar laws; (xiii) general non-recourse status; and (xiv) real and personal property tax laws, rates and assessments.

In addition, commercial properties may involve a single user or tenant or relatively few tenants. Commercial property specifications may be tailored to the requirements of particular users or tenants and, accordingly, it may be difficult, costly and time consuming to liquidate such properties or attract new tenants. Some properties may not be readily convertible (or convertible at all) to alternative uses if those properties were to become unprofitable for any reason. As a result, the liquidation value of any mortgaged property may be substantially less than would be the case if the property were readily adaptable to other uses.

The Funds and other Clients may acquire performing, sub-performing and/or non-performing debt interests, as well as debt interests that become sub-performing or non-performing in the future. In addition to the risks of borrower default, the collateral may be mismanaged or otherwise may have declined in value and/or may in the future decline or further decline in value. Investments in debt are subject to the risk that, upon maturity of the real estate loans, replacement “takeout” financing will not be available. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement, and/or bring claims for lender liability in response to actions to enforce loan obligations. Moreover, in certain situations, because a Client, in the exercise of its remedies or rights under loan documents, may obtain contractual rights to participate in or to influence the management of properties by borrowers, the likelihood is increased that a borrower may claim that a Client interfered with the borrower’s business, acted in bad faith in exercising its management rights or otherwise acted in a manner giving rise to a claim for lender liability. Often the exercise of remedies will not be led or controlled by a Client, but may be led or controlled by a holder of a different class of securities which may be in conflict with the interests of a Client.

As a lender, a Client may also be subject to penalties for violations of state usury limitations, which may result in penalties assessed against a Client or other liability to a Client. In addition, a Client’s investments in loans may involve workout negotiations, restructuring, the possibility of foreclosure and/or a discounted payoff. However, even if a loan restructuring were successfully accomplished, there are risks of a substantial reduction in the interest rate and/or a substantial write-down of the principal of such loans, each of which may also have adverse tax consequences. Further, the foreclosure process, which may not be led by a Client, varies from jurisdiction to jurisdiction and can be lengthy and expensive and under certain circumstances or in certain states and/or non-U.S. jurisdictions can result in the inability to obtain a deficiency judgment or enforce a personal guaranty. Additionally, certain states and/or non-U.S. jurisdictions may have (or may enact after a Client acquires loans) anti-deficiency and similar legislation that limits the ability of lenders, such as a Client, to collect on guarantees and/or recover deficiencies from foreclosed borrowers, which could have a material adverse effect on a Client’s anticipated return on certain loans.

As part of its investment program, a Client may invest in fixed- and floating-rate loans, which investments may be in the form of loan participations or assignments of portions of such loans. In addition to the risks described above, participations and assignments involve special types of risk, including credit risk, interest-rate risk, liquidity risk, and the general risks related to being a lender. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. If a Client purchases participations, then the Client generally will have no right either to enforce compliance by the borrower with the terms of the underlying loan or to set-off obligations that a Client may otherwise owe to the borrower. Furthermore, a Client may not directly benefit from the collateral supporting the loan in which it has purchased the participation. As a result, a Client would assume the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. Further, there may be no active secondary market for certain types of loans that a Client intends to make or acquire or for certain equity participation rights of the kind that a Client might acquire. Any of the foregoing risks could materially adversely affect the return on a Client's investments and could cause the loss of all or part of such investments.

Risks Related to Mezzanine Loans

Investments in mezzanine loans are generally secured by a pledge of the ownership interests in the entity that directly or indirectly owns the property and are typically junior to the obligations of the entity to senior creditors. These types of investments involve a higher degree of risk than senior mortgage loans because the investment may become unsecured as a result of foreclosure by the senior lender and Rialto's ability to influence an entity's affairs on behalf of a Client, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, a Client may not have full recourse to the assets of the property-owning entity or the assets of the entity may not be sufficient to satisfy the mezzanine loan. If a borrower defaults on a mezzanine loan or debt senior to its loan, or in the event of a borrower bankruptcy, the mezzanine loan may be satisfied only after the senior debt is paid in full. As a result, a Client may not recover some or all of its investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. In certain circumstances, in order to protect its investment, a Client may decide to repay all or a portion of the senior indebtedness relating to the particular loan or to cure defaults with respect to such senior indebtedness. In the bankruptcy of a borrower, those loans that are not secured by a lien on the underlying real estate would have a priority no greater than other general creditors of the borrower. In addition to repayment risks, these subordinate positions may be "soft," meaning that they are subject to restrictions on enforcement rights prior to maturity or foreclosure of the senior position. These restrictions may adversely affect a Client's ability to control the underlying assets.

Risks Related to CMBS

Certain Client investments may be allocated to CMBS and/or interests in other pools of commercial mortgage loans. Accordingly, the CMBS and other pools of commercial mortgage loans in which a Client may invest are subject to all of the risks of the respective underlying commercial mortgage loans, as described above. Certain subordinated securities (“first loss securities”) absorb all losses from default before any other class of securities is at risk. Default risks may also be further pronounced in the case of CMBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Accordingly, these securities may experience significant price and performance volatility with respect to a variety of market and non-market factors. A Client may or may not hedge the credit risk associated with CMBS. No natural hedge exists for the default risks for many asset types, including those inherent to individual whole loans. The market values of certain of these securities (such as subordinated CMBS) also tend to be more sensitive to changes in economic conditions than higher rated securities. Declining real estate values, in particular, will increase the risk of loss to subordinated CMBS upon default. The value of subordinated CMBS may also be affected by changes in government regulations and tax policies. In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the credit quality of securities that they rate. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Risks Related to RMBS

The Clients may invest directly in residential mortgage loans and may purchase residential mortgage-backed securities (“RMBS”) or interests in other pools of residential mortgage loans. RMBS evidence interests in, or are secured by, pools of residential mortgage loans. Accordingly, the RMBS and other pools of residential mortgage loans in which the Clients may invest are subject to all of the risks of the respective underlying mortgage loans. Residential mortgage loans are typically secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, natural disasters, environmental disasters, acts of terrorism, government shutdowns, social unrest and civil disturbances, may impair borrowers’ abilities to repay their loans. In addition, the Clients may invest in non-agency RMBS, which are backed by residential real property but, in contrast to agency RMBS, their principal and interest are not guaranteed by federally chartered entities such as Fannie Mae and Freddie Mac and, in the case of Ginnie Mae, the U.S. government.

In the event of any default under a mortgage loan held directly by a Client, the Client will bear the risk of loss of principal to the extent of any deficiency between the value of the collateral (which, for many residential and other real estate properties, has already significantly declined and may decline further in the future) and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on a Client’s anticipated return.

Clients also may invest in RMBS or other pools of residential mortgage loans that include or are backed by collateral consisting of subprime residential mortgage loans. “Subprime” mortgage

loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have a high debt-to-income ratio, and mortgage loans made to borrowers whose income is not required to be disclosed or verified.

Risks Related to Reliance on Relationships with Repeat Sellers and CMBS Sponsors

In order to achieve the Clients' investment objectives, Rialto will seek to focus on off-market opportunities by transacting through direct relationships with repeat sellers and CMBS sponsors, such as investment, money center, regional, community, local and foreign banks, master servicers, special servicers, government agencies, other financial institutions and loan originators. No assurance can be given that Rialto will be able to maintain such relationships or that such relationships will provide a significant number of privately negotiated or off-market investment opportunities for the Clients. For example, the opportunity to enter into off-market transactions may be negatively affected if a repeat seller or CMBS sponsor enters into a merger, acquisition, consolidation or similar transaction, and such repeat seller or CMBS sponsor is not the surviving or controlling entity. Rialto's failure to continue its relationships with repeat sellers and CMBS sponsors may negatively impact the number of investment opportunities available to the Clients, which could in turn adversely affect the Clients' returns.

Risks Related to Subordinated Securities

A Client may make significant investments in below-investment-grade (or unrated) CMBS (and may also have below-investment-grade (or unrated) investments in RMBS), that are subordinated to other more "senior" securities of the same issue or series. The default-related risks of the underlying mortgages or assets are severely magnified in subordinated securities. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. Such securities therefore possess some of the attributes typically associated with equity investments. Default risks may also be further pronounced in the case of CMBS and RMBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Accordingly, these securities may experience significant price and performance volatility with respect to a variety of market and non-market factors.

A Client may or may not hedge the credit risk associated with CMBS and RMBS. In some cases, a Client may hedge certain of these purchases through offsetting short positions or by positions in options linked to default. No natural hedge exists for the default risks for many asset types, including those inherent to individual whole loans, as the behavior of a small set of borrowers may not be well correlated to the behavior of a larger pool. Nevertheless, the Clients may choose to hedge risks to mortgage originators or specialty finance companies through debt or equity trades in these companies or through the use of other derivatives, such as credit default swaps. The market values of certain of these securities (such as subordinated CMBS and RMBS) also tend to be more sensitive to changes in economic conditions than higher rated securities. The

Clients may also be prohibited from hedging certain CMBS investments under the “Risk Retention Rules” under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, among other restrictions under such rules. Declining real estate values, in particular, will increase the risk of loss to subordinated CMBS and RMBS upon default, and may lead to a downgrading of the securities by rating agencies. The value of subordinated CMBS and RMBS may also be affected by changes in the market’s perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

In general, the ratings of nationally recognized rating organizations represent the opinions of those agencies as to the credit quality of securities that they rate. Rialto may use these ratings as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Risks Related to Development, Redevelopment, Renovation and Construction

The Clients may invest in undeveloped land, development and/or redevelopment properties. Undeveloped land and development and redevelopment properties involve additional risks in comparison to properties on which development has been completed. Undeveloped land, development and redevelopment properties may not generate operating revenue while costs and expenses are incurred between the acquisition of a project and the realization of the project’s objectives, including, but not limited to, property taxes and insurance. Because of this, a project may, as a result of changes in the real estate market, economic and/or other conditions prior to completing the project, become an economically unattractive investment. In addition, there are risks that development projects may be abandoned after the Client has expended significant resources, construction may not be completed within budget or on schedule because of cost overruns, work stoppages, shortages of building materials, volatile increases in the cost of construction materials or labor, hurricanes, earthquakes or other natural disasters, the failure of contractors or subcontractors to perform their obligations under construction contracts, defects in plans and specifications and/or other factors.

Development and redevelopment activities are also subject to risks relating to the inability to obtain, or delays in obtaining, necessary entitlements, zoning, land-use, building, occupancy and other required governmental permits and authorizations. Delays caused by the need to obtain government approvals, permits and authorizations may extend construction periods and increase costs. Latent site conditions may also lead to increased costs and loss of revenue. Ultimately, development projects may not achieve anticipated occupancy levels or sustain anticipated rent levels. Any delay in completing the development or redevelopment of a project may result in increased interest and construction costs and the potential loss of previously identified purchasers or tenants. Any of these risks may cause Client losses.

Risks Related to Distressed Investments

The Clients may invest in non- and sub-performing loans and other stressed and distressed securities. Stressed and distressed investment strategies generally involve investing in the securities and other assets of issuers in weak financial condition (perhaps having a negative net

worth), experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems, or involved in various stages of bankruptcy or reorganization proceedings. Investment in the securities of financially or operationally troubled issuers involves a high degree of credit and market risk that may result in losses. Among the risks inherent in investments in financially troubled issuers is the fact that it is frequently difficult to obtain reliable information as to their true financial prospects. The market prices of stressed and distressed securities are subject to abrupt and erratic interim market movements and excessive price volatility. Securities of such issuers are typically more volatile and less liquid than securities of companies not experiencing such difficulties.

Risks Related to Investments in Restructurings

The Clients may make investments in restructurings that involve companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such company to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a Clients to certain additional potential liabilities that may exceed the value of such Client's original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a Client and distributions by the Client to its investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or characterize investments made in the form of debt as equity contributions.

Risks Associated with Originating Loans to Entities in Distressed Situations

As part of its lending activities, the Clients may originate loans to entities that are experiencing significant financial or business difficulties, including entities involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to the Client, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to entities experiencing significant business and financial difficulties is unusually high. There is no assurance that Rialto will correctly evaluate the value of the assets collateralizing a Client's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to an entity that a Client funds, the Client may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the loan advanced by the Client to the borrower.

Risks Related to Balloon Loans

The Clients may acquire mortgage loans that provide for scheduled payments of principal and/or interest based on amortization schedules significantly longer than their respective remaining terms to maturity or provide for payments of interest only until their respective maturity date and, in each case, a balloon payment on their respective maturity date. A borrower's ability to make a

balloon payment will typically depend upon its ability either to refinance the loan in full or to sell the related mortgaged property at a price sufficient to permit the borrower to make such payment. The ability of a borrower to effect a refinancing or sale will be affected by a number of factors, including the value of the related mortgaged property (which, due to then-prevailing market conditions, could be materially impaired), the level of available mortgage rates at the time of sale or refinancing, the borrower's equity in the mortgaged property, the financial condition and operating history of the borrower and the mortgaged property, rent roll status, rent control laws with respect to certain residential properties, tax laws, prevailing general and regional economic conditions and the availability of credit for mortgage loans. Generally, even fully amortizing mortgage loans that pay interest on an "actual/360" basis but have fixed monthly payments may, in fact, have a small balloon payment due at maturity. Any delay or failure to collect a balloon payment could materially adversely affect a Client's expected returns.

Risks Related to B-Notes

The Clients may invest in B-notes, which are mortgage loans typically secured by first mortgages on commercial properties and are subordinate to the A-note portions of the same loans (which are secured by the same first mortgages or the same collateral). The B-note portion of a loan is typically small relative to the overall loan, and is in the first loss position. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note holders after payment to the A-Note holders. Because each transaction is privately negotiated, B-notes can vary in their structural characteristics and risks. For example, the rights of B-note holders to control the process following a borrower default may be limited in certain investments. B-notes are also less liquid than CMBS, and as a result, a Client may be unable to dispose of performing, underperforming or non-performing B-notes. The higher risks associated with a Client's subordinate position in a B-note investment could subject such Client to an increased risk of loss.

Risks Related to Implementing Operating Improvements

In some cases, the success of the Client's investment objective will depend, in part, on Rialto's to restructure and effect improvements in the operations of a company. The activity of identifying and implementing restructuring programs and operating improvements entails a high degree of uncertainty. There can be no assurance that Rialto will be able to successfully identify and implement such restructuring programs and improvements.

Item 9: Disciplinary Information

Neither Rialto nor any of its officers, directors, employees, or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item 9.

Item 10: Other Financial Industry Activities and Affiliations

Rialto, together with certain affiliates, operates as an integrated investment and asset management business. Jeffrey Krasnoff is the global chief executive officer and Jay Mantz the global president

of the Rialto platform. The platform's two primary components are Rialto Capital Management and its affiliate Rialto Advisors.

Rialto Advisors provides due diligence, asset management, special servicing and loan servicing services to Clients. As a rated special servicer, Rialto Advisor's primary function is to manage loans that go into default or become delinquent during their term or at maturity, as well as perform surveillance services. In January 2014, Rialto Advisors, through its subsidiary Rialto Servicing, acquired Quantum Servicing Corporation, a wholly owned loan servicing business that specializes in servicing performing and non-performing whole loans, mezzanine loans, and B-notes.

In the ordinary course of their business, Rialto and its subsidiaries together with the General Partners, engage in activities that could be in conflict with the interests of Clients. The discussion below identifies certain types of conflicts that may arise from time to time but does not purport to be a comprehensive discussion. Dealing with conflicts of interest is complex and it is not possible to predict every conceivable conflict. New and different types of conflicts may subsequently arise as a result of changes in operations or practices, the development of new relationships, etc. Nonetheless, Rialto seeks to address conflicts of interest that may arise in favor of its Clients and in accordance with its fiduciary obligations under the Advisers Act.

Stone Point Capital, LLC, an SEC registered investment adviser, is the investment manager of certain funds that are indirect owners of Rialto.

Allocation of Investment Opportunities

In general, Rialto's investment offerings endeavor to identify investments with distinct characteristic and return profiles. Rialto seeks to allocate investment opportunities fairly among the Clients, taking into consideration, among other things, any applicable exclusivity clause contained in the relevant Governing Documents, the expected time commitment for an investment, projected return profile and other factors identified in more detail below. Each Client is subject to the investment and co-investment allocation requirements set forth in the applicable Governing Documents.

From time to time, Rialto may identify an investment opportunity that is appropriate for more than one Client. In such a case, Rialto shall allocate the investment opportunity between such Clients in accordance with the investment allocation provisions of the applicable Client Governing Documents. If a Client has exclusivity with respect to a certain category of investments and rejects an investment presented by Rialto in that specific category, Rialto may present such investment to other Clients. To the extent discretion is permitted under the applicable investment allocation provisions of such Governing Documents, Rialto will allocate the opportunity on a basis that it determines in good faith to be fair and equitable taking into account any factors enumerated in such provisions, as well as other considerations deemed relevant by Rialto. Among other things, the factors taken into consideration with respect to the allocation of investments may include the approximate size of the investment opportunity, the asset class or type of the investment opportunity, the nature of the investment in relation to the activities and focus of the relevant parties, the geographic location of the investment opportunity, the available capital and projected future capacity for investment of the relevant parties, the availability of other suitable

investment opportunities for the relevant entities, the timing of the transaction and other factors that may be deemed relevant by Rialto in good faith.

If a perceived or actual conflict of interest occurs as a result of Rialto's advisory discretion, Rialto will consult with the Client, if applicable, the Clients' Advisory Committee, Rialto's General Counsel, and the compliance department as necessary. Furthermore, the Clients' Governing Documents generally provide for the disclosure of potential conflicts for the waiver, approval or disapproval of actions taken with respect to an investment.

Alignment of Interests

Rialto and its affiliates engage in a broad spectrum of real estate related activities. They may have direct or indirect interests in real properties that are in the same markets as, and compete with, certain of the real properties underlying the investments of Clients. Consequently, personnel of Rialto and its affiliates who perform services on behalf of Clients could also perform services related to real properties that compete with real properties that underlie investments made by Clients.

Clients, principals or subsidiaries may make an investment in an entity, asset or property in which another Client holds an investment in a different class of debt or equity securities or obligations. For example, a Fund may acquire an interest in a senior mortgage loan on a particular property with respect to which another Client holds or acquires mezzanine debt, a companion loan or other additional debt or an equity interest or other type of interest. As a result, the economic interests and incentives of such Clients will not be aligned and could pose potential conflicts should an event arise that requires Rialto to take an action that will impact the Clients in different ways.

Additionally, a Client may acquire mezzanine debt, a companion loan or other debt, or an equity interest or other interest in a particular property on which another Client or another affiliate of the General Partner or Rialto has acquired an interest in a senior mortgage loan on that same property and with respect to which an affiliate of the General Partner or Rialto has been appointed special servicer. For example, it is possible that a Client may acquire mezzanine debt, a companion loan or other debt, or an equity interest or other interest in a particular property on which the related senior mortgage loan has been included in a CMBS pool and another Client or Rialto affiliate may hold an investment in the same CMBS pool and, in connection with such investment, an affiliate of the General Partner or the Adviser is appointed as the special servicer for such pool.

Pooling and Servicing Agreements typically require the special servicer to service and administer loans in such pools in the best interest of all classes of certificate holders and without regard to any other relationship or interest that the special servicer or any of its affiliates may have with respect to the related properties or borrowers (such as an interest of a Client as a lender on other debt). In these or similar circumstances, the affiliate of the General Partner or Rialto that is acting as special servicer would be required to put the interests of investors in the pool of mortgage loans ahead of the interests of the Fund and its limited partners or other Clients and investors, and the special servicer may be required to take certain actions that would be adverse to the interests of the Fund and its limited partners or Clients and investors. Any such conflicts of interest would need to be resolved in accordance with the applicable mechanisms in the relevant Pooling and

Servicing Agreement, such as those pertaining to the resignation of the special servicer. Pooling and Servicing Agreements entered into starting with the third quarter of 2015 generally require the special servicer to recuse itself by resigning as special servicer with respect to the loan in connection with which the conflict arose.

Subject to the provisions set forth in the Governing Documents, Rialto and the General Partners will endeavor to manage any conflict of interest between or among Clients in their discretion, consistent with Rialto's fiduciary obligations. Certain additional matters involving possible conflicts of interest will also be raised with the relevant Client.

Ancillary Benefits – CMBS Transactions

Rialto's affiliates perform other services and/or serve in other roles with respect to CMBS and receive ancillary benefits thereto. For example, investors in the B-piece of a CMBS typically maintain the right to appoint and remove the special servicer for relevant loan pools within the CMBS. Certain Clients are investors in B-pieces related to CMBS, and as such, have appointed Rialto Advisors as the special servicer of the relevant CMBS pools so acquired. Rialto Advisors is remunerated for these services by the CMBS trust. The investors in the Funds have the right to require the Funds to terminate the special servicer if such special servicer is the General Partner or one of its affiliates and to designate a different special servicer who is not affiliated with the General Partner.

Having acquired multiple deals from loan contributors and issuing banks, Rialto has developed extensive relationships that provide potential investment opportunities for Clients as well as for Rialto and its affiliates. However, it is possible that such business opportunities could present further conflicts between the interests of the Clients and those of Rialto and its affiliates.

Other Services Provided by Affiliates

Property Services. As provided for in the Governing Documents, an affiliate of Rialto may be engaged to perform property, construction or development, management, leasing and related or similar types of services for Clients, and for which the Clients would otherwise retain third parties.

Loan servicing. Rialto Servicing, has been engaged to provide loan servicing, asset management, and similar services in accordance with approved rates.

Investment-level services. The Clients' Governing Documents provide that Rialto, and their respective affiliates, will perform asset-level field due diligence, loan file due diligence, loan and real estate owned asset management services, asset-level accounting, loan servicing and other similar services that outside professionals or outside consultants otherwise would perform for the Client. As discussed in Item 5, fees for these investment-level services vary by Client and are more fully described in each Client's Governing Documents.

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

Code of Ethics

Pursuant to Rule 204A-1 of the Advisers Act, Rialto has adopted a written Code of Ethics (the “Code”) which sets forth standards of conduct that are expected of Rialto’s employees. The Code requires all Rialto employees to recognize their obligations to act in the best interests of Clients, avoid any situations that may present or appear to present an actual or potential conflict, comply with federal securities laws and promptly report any violations of these laws or provisions of the Code.

Rialto’s Code also reflects provisions addressing conflicts of interests that arise from its employees’ personal trading. Employees must request the CCO’s approval prior to making an investment in an initial public offering or a private limited offering. Employees are also required to periodically submit reports of their personal securities transactions and holdings, a requirement that extends to the employee’s immediate family members who live in the same household.

For more information about Rialto’s Code, Clients and Fund investors and prospective Clients and Fund investors may request a copy by contacting the CCO at (305) 485-2077.

In some instances, principals and employees of Rialto, as well as the General Partners, their affiliates, and related persons invest in the Funds. Although they bear their proportionate share of the relevant Fund’s expenses, such Rialto employees, affiliates, or related persons are generally not subject to investment management fees or carried interest.

As set forth in the Governing Documents, co-investment opportunities may be presented to certain Fund investors or other third parties, including Rialto’s affiliates or related persons. Rialto will determine the allocation of investment opportunities in accordance with the relevant Client’s Governing Documents and its investment allocation policy, considering factors such as the Client’s investment restrictions and objectives, investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

As discussed previously herein, since Rialto and the Funds’ General Partners engage in a broad spectrum of real estate related activities, they may have direct or indirect interests in real properties that are in the same markets as, and compete with, certain of the real properties underlying the investments held by Clients. Please see Item 10 for additional information.

Participation or Interest in Client Transactions

Principal Transactions

When permitted by applicable law and subject to and in accordance with the terms of the Governing Documents of the applicable Fund, Rialto may effect principal transactions where a Fund may have the opportunity to purchase investments from or sell investments to Rialto or its

affiliates or any fund or account deemed to be controlled by Rialto or its affiliates. There may be potential conflicts of interest or regulatory issues relating to these transactions which could affect Rialto's decision to engage in these transactions for the Funds. In connection with a principal transaction, Rialto and its affiliates may have a potentially conflicting division of loyalties and responsibilities regarding a Fund and the Rialto parties. Rialto has developed policies and procedures in relation to such transactions and to address such conflicts. Under these policies and procedures, Rialto discloses the material terms of the transaction (including pricing information) and the conflict to its Client and obtains consent (either directly from the Client's investors or indirectly from the LPAC or an agent on behalf of such investors).

Item 12: Brokerage Practices

To the limited extent that Rialto transacts in public securities or other non-private equity investments (e.g., currency hedging) that require the use of a financial intermediary such as a broker-dealer, Rialto will select an intermediary based on its ability to provide best execution for its Clients. Rialto is generally authorized to make the following determinations, subject to each Client's investment objectives and restrictions, without obtaining prior consent from the relevant Client: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for transactions.

Item 13: Review of Accounts

All investments are reviewed and approved by Rialto's CEO and President and, where applicable, a Client specific investment committee. The investment committees include Rialto's CEO, President, managing directors and other senior investment professionals. The composition of any investment committee may change from time to time. Investment professionals responsible for identifying and conducting due diligence on each investment present the investment to the applicable investment committee, which will make the final decision with respect to the investment opportunity.

Following the acquisition of an investment, such investment is monitored on an ongoing basis by designated portfolio management professionals. The portfolio management group meets periodically and reviews Client portfolios. Generally, on a quarterly basis, Rialto's valuation committee meets to perform reviews of assets held in Client portfolios.

The nature and frequency of regular reports to Clients and/or Fund investors depends on the terms of the Governing Documents of each respective Client or Fund investor. Typically, Fund investors are provided with written quarterly unaudited financial reports and annual audited financial statements. Rialto also holds annual meetings with Fund investors of certain Funds.

Item 14: Client Referrals and Other Compensation

Rialto has entered into written agreements with placement agents/finders for the referral of Fund investors. These agreements generally provide that Rialto will pay the placement agent/ finders a fee for referring prospective investors to the Funds. These fees typically are based on a percentage of the aggregate commitments from Fund investors referred by the placement agent/ finder.

Any referral arrangements for Clients will be made in accordance with Rule 206(4)-3 of the Advisers Act, as applicable.

Item 15: Custody

In connection with its investment management and advisory services, Rialto is deemed to have custody of its Clients' assets. Rule 206(4)-2 under the Advisers Act (the "Custody Rule") 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). While Client assets are held in custody of unaffiliated broker/dealers or banks (except as otherwise permitted for certain uncertificated investments), Rialto is deemed to have custody as defined under the Custody Rule. Specifically, Rialto's affiliate processes payments on loans that underlie investments held by Clients, and therefore has direct access to these assets. Rialto also has the authority to direct the movement of funds out of accounts through which these payments are processed. Furthermore, the General Partners are Rialto affiliates and have full discretion over the Funds' assets. Fund investors will not receive statements from custodians. Instead, the Funds are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board (a "Qualified Auditor"), and the audited financial statements are distributed to each Fund investor. Separate account Clients do receive statements from their custodian and Rialto is subject to surprise examination by a Qualified Auditor with respect to certain Clients that are separately managed accounts.

Item 16: Investment Discretion

Rialto has discretionary authority with respect to most Clients to determine the securities and amounts to be bought or sold on their behalf without obtaining specific consent from its Clients. Rialto exercises its investment discretion pursuant to Management Agreements it executes with Clients and/or, as applicable, the terms and conditions of Governing Fund Documents.

Item 17: Voting Client Securities

Clients typically do not invest in public securities for which proxies are issued. However, in accordance with its fiduciary duty to Clients and Rule 206(4)-6 of the Advisers Act, Rialto has

adopted and implemented written policies and procedures governing the voting of Client securities to address the rare occasion on which this may occur. Specifically, Rialto generally votes proxies in line with company management; however, Rialto reserves the right to vote against management, or abstain from voting, if, in its discretion, Rialto determines that it would be in the best interest of Clients to do so. Rialto will seek to avoid material conflicts of interest between its own interests on the one hand, and the interests of its Clients on the other.

Rialto maintains proxy voting policies and procedures, as well as a record of how it has voted, and these are available for review upon written request. Clients and Fund investors may obtain this information by contacting the CCO by telephone at (305) 485-2077.

Item 18: Financial Information

Rialto has not been subject to any bankruptcy proceeding during the past 10 years and is not aware of any financial condition that is likely to impair its ability to meet contractual commitments to Clients.