

Item 1 – Cover Page



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This Brochure provides information about the qualifications and business practices of PCI III Management, LLC (“**PCIM III**” or the “**Adviser**”), a wholly owned subsidiary of Pembroke Capital Management LLC (“**PCM**”). PCM also owns Pembroke Management Holdings, LLC (“**PMH**”), PCI Management, LLC (“**PCIM**”) and PCI IV Management LLC (“**PCIM IV**”). PCM, PMH, PCIM, PCIM III and PCIM IV (collectively referred to as “**Pembroke**”) are registered investment advisers with the Securities and Exchange Commission (the “**SEC**”), and PMH, PCIM, PCIM III and PCIM IV are relying advisers that file with PCM.

If you have questions about the content of this Brochure, please contact Robert Hellman at (212) 906-8690 or rhellman@pembrookgroup.com. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or any state securities authority. Additional information about Pembroke is also available on the SEC’s website at www.adivserinfo.sec.gov.

Item 2 – Material Changes

This brochure is being updated as part of PCIM III's Form ADV Annual Updating Amendment for the fiscal year ending December 31, 2018 and includes material changes to disclosures in:

- Item 6 regarding (i) the potential conflicts arising from the existence of side letters, and (ii) additional language detailing criteria used in determining the allocation of investment opportunities; and
- Item 10 regarding (i) the potential conflicts arising from the existence of side letters and (ii) the Adviser's affiliation with The Back Office Services Group, LLC ("BOSG").

The Adviser has also included other non-material changes such as updated regulatory assets under management.

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Item 4 – Advisory Business

- A. PCIM III is a Delaware limited liability company formed in July 2013, and commenced operations in 2016, for the purpose of serving as the managing member and investment adviser for PCI Investors Fund III, LLC (“**Fund III**”). PCIM III also serves as the investment manager to PCI III Preferred Equity Issuer, LLC (“**Fund III Preferred**”), which is a wholly owned subsidiary of Fund III (at times herein, Fund III and Fund III Preferred are collectively referred to as the “**Funds**”). PCIM III is a wholly-owned subsidiary of PCM. PCM is a limited liability company founded in 2006 by Stuart J. Boesky, and is 52% owned by SJB Associates, Inc. and 13% owned by SJB Associates, L.P. (which are wholly-owned by Mr. Boesky), and 35% owned by MIG Holdings, LLC (which is controlled by ORIX Mariner Holdings, LLC, and ultimately by the Orix Corporation through Orix USA Corporation). Additionally, PCM owns PCIM and PCIM IV and is a majority owner of PMH.
- B. PCIM III provides discretionary investment advisory services to the Funds, which are domestic pooled investment vehicles. PCIM III primarily provides investment advice regarding commercial real estate debt and structured financial products and, to a lesser extent, preferred equity throughout the United States. The investment strategy for the Funds will focus on well secured and well sponsored high yielding short term and floating rate real estate debt and selective preferred equity opportunities. An important part of Fund III Preferred’s strategy is to include in its investments certain real estate debt and, to a lesser extent, preferred equity associated with underserved property types and markets that benefit from regulatory advantages, such as low and moderate income housing and commercial, retail and other property types in low and moderate income areas. This may present certain regulatory advantages regarding interests in Fund III Preferred that are subject to the Community Reinvestment Act of 1977 (the “**CRA**”). Property types are primarily multifamily, office and retail, and a portion of these investments could bring new capital to community development and generate positive consideration under (“**CRA Consideration**”) the CRA investment test (“**CRA Investments**”).
- C. PCIM III’s investment management and advisory services are provided to the Funds, and tailored to each Fund pursuant to the terms of each Fund’s offering memorandum and based on the specific investment objectives and strategies as disclosed therein.
- D. PCIM III does not participate in wrap fee programs.
- E. As of December 31, 2018, PCIM III managed approximately \$143,908,364 in regulatory assets under management on a discretionary basis. PCIM III does not manage any assets on a non-discretionary basis.

Item 5 – Fees and Compensation

A&B. Investors in Fund III are referred to herein as “**Members**” (each, a “**Member**”). Interests in Fund III Preferred will be referred to as “**Preferred Interests**” or “**Preferred Member Interests**” herein. At times, investors in Fund III Preferred will be referred to as “**Preferred Members**” (each, a “**Preferred Member**”). The Fund has formed an advisory committee which has designated, at least three natural persons to serve thereon, all of whom are independent of PCIM III, Pembroke, and their affiliates (the “**Advisory Committee**”).

Management Fees

Fund III

PCIM III shall receive from Fund III as compensation for its services an investment advisory fee (the “**Advisory Fee**”) payable quarterly in advance and prior to any distributions to Fund III Members, equal to (i) 0.75% per annum of Committed Capital (as defined below) through the investment period plus (which the manager has currently waived) (ii) 1.5% per annum of Drawn Capital (as defined below), less the placement fees, if any, paid by Fund III. For purposes hereof, (i) “**Committed Capital**” means, from the date of any subscription agreement through the end of the investment period, all investor capital for which the Fund has a commitment but which is not Drawn Capital; and (ii) “**Drawn Capital**” means all investor capital which (A) has been drawn and paid into Fund III by the Member and not returned, or (B) is security for an outstanding drawing on a subscription line of credit of Fund III. The Advisory Fee is payable quarterly in advance and prior to distributions to Fund III Members. After the end of the investment period no Advisory Fee shall be payable to PCIM III with respect to any capital attributable to investments which have been written off by the Fund and for which all recovery efforts have ceased. PCIM III has waived the fee on Committed Capital.

Fund III Preferred

PCIM III shall receive from Fund III Preferred as compensation for its services an Advisory Fee equal to 1.5 % per annum of Drawn Capital and unreturned capital paid by the holders of the Preferred Member Interests, less the placement fees, if any, paid by Fund III Preferred, payable quarterly in advance and prior to distributions to Preferred Member Interest holders. No Advisory Fee shall be charged on the capital contributions of the common member of Fund III Preferred. In no event will the Advisory Fee exceed 1.5% per annum on the unreturned capital contributions made by all Members of Fund III Preferred holding all outstanding series of preferred limited liability company interests in Fund III Preferred (including the Preferred Member Interests).

Incentive Fees

Cash which PCIM III deems available for distribution generated by Fund III investments, net of the respective Advisory Fees, expenses attributable to such investments, and an allocable portion of expenses not directly relating to any investment, and, if necessary, any contribution to Fund III Preferred needed to pay any quarterly preferred distributions accruing on the Preferred Interests, may be distributed by Fund III quarterly to the Fund III Members as follows.

- (1) First, to the Members, (including PCIM III) based on their respective “**Percentage Interests**” (determined by dividing each Member’s capital contributions by the aggregate capital contributions of all Members), until each such Member has received with respect to contributed capital of such Member, calculated for the period such capital was outstanding and not repaid, a return thereon at the rate of 8% per annum;
- (2) Second, to the Members (including PCIM III) based on their respective Percentage Interests, until each such Member has received cumulative distributions equal to such Member’s capital contributions to Fund III; and
- (3) Third, (A) 50% to the Members (including PCIM III) based on their respective Percentage Interests, and (B) 50% to PCIM III until the cumulative distributions to PCIM III made under this clause (3)(B) equal 20% of the aggregate amounts distributed to the Members (including PCIM III) under clauses (1) and (3)(A); and;
- (4) Finally, (A) 80% of the Members (including PCIM III) based on their respective Percentage Interests, and (B) 20% to PCIM III (the distributions under subparagraph (3)(B) and this subparagraph (4) are referred to as the “**Carried Interest**”).

Other Fee Information

PCIM III may receive fees for providing services to the Funds which are outside the scope of the advisory agreement, such as loan servicing, special servicing and asset management of REO properties, upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arm’s length basis with third parties and after prior consultation with and approval by the Advisory Committee.

The fee arrangements between Pembroke and the Funds are not the product of an arm’s length negotiation with a third party. In addition, conflicts of interest may arise in the allocation process of the investment opportunities that become available based, in part, on differences that may exist between Pembroke’s various Funds based on management fees or origination fees, as well as application, commitment, acquisition or similar fees associated with such investments that may be paid to Pembroke and certain of its related advisers. This conflict occurs both with respect to investment by other Pembroke funds and with proprietary investments by Pembroke entities or related persons. Pembroke believes that the policies and procedures it has adopted (see Item 6, below), as well as the provisions in the various Funds’ operating agreements and disclosure documents, are designed appropriately to address conflicts of interest.

- C.** The Funds shall reimburse PCIM III for up to \$1.5 million for the expenses of organizing the Funds; provided that, any expenses in excess of such amount shall be borne by PCIM III. Members will not be charged any sales or placement fees for purchasing interests in the Fund. The Funds will bear the initial cost of placement fees when otherwise due and payable, provided that, the Advisory Fees otherwise payable by the Funds to PCIM III hereunder will be reduced to the extent of all such placement fees. The Funds shall be responsible for all fees and expenses incurred with respect to the business of the Funds and shall reimburse PCIM III, as applicable, for the reasonable expenses, obligations and other liabilities incurred or paid by PCIM III and its affiliates in performing the obligations of the managing member and the investment adviser to the Funds or otherwise providing services to or for the benefit of the Funds. All Fund expenses and Advisory Fees shall be paid out of cash funds of the Funds determined by PCIM III to be available for such purpose prior to the distribution of any available cash to any of the Members.

Each of PCIM III and PCM will be responsible for paying rent, overhead expenses and salaries and other compensation expenses in respect of its employees and those of its affiliates, and will be responsible for paying all taxes measured by net income of PCIM III or PCM, and will not be entitled to reimbursement from the Funds for any such rent, overhead expenses, salaries, compensation or taxes, nor will there be any allocation to the Funds of any such rent, overhead expenses, salaries, compensation or taxes.

- D.** Advisory Fees are payable quarterly in advance and included in the calculation of funds available for distributions to Fund Members. However, PCIM III currently does not collect any Advisory Fees until after the end of the quarter in which they are payable.
- E.** Sponsors/borrowers to whom the Funds make loans are typically required to pay application, origination, commitment, acquisition or similar fees associated with such loans. Among its supervised persons, Pembroke utilizes the services of consultants who can receive all or a portion of their compensation from the acquisition fees associated with such securities.

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

Each Fund is dependent on PCIM III for its day-to-day management and does not have any independent officers or employees. The management agreement with PCIM III was negotiated between related parties and its terms, including fees and other amounts payable, may not be as favorable as if it had been negotiated at arm's length with an unaffiliated third-party. Each Fund relies on Pembrook for its daily operation, origination of its investments and the management of its assets. Pembrook employees and its affiliates may have conflicts in allocating their management time, services and functions among the Funds and any future real estate investment programs or other business ventures which Pembrook may organize or serve, as applicable. Pembrook believes that it and its affiliates have enough staff to perform their responsibilities in connection with all of the real estate programs and other business ventures in which they are involved and that the employees of Pembrook will devote a sufficient portion of their time attending to the business of the Funds.

As noted in Item 5, PCIM III is entitled to a Carried Interest in Fund III. PCIM III believes that the existence of performance fees aligns the interest of PCIM III with the investors. Currently, all the private funds managed by Pembrook receive generally the same percentage performance fee.

However, conflicts of interest may arise in the allocation process of the investment opportunities that become available. This conflict occurs both with respect to investment by other Pembrook funds and with proprietary investments by Pembrook entities or related persons. In order to minimize this conflict, Pembrook has adopted policies and procedures which include the investment allocation process. In general, these policies provide for the fair and equitable allocation of investment opportunities among all Pembrook accounts or affiliated parties. Pembrook's or any of its affiliates' right to invest in the same investment opportunities is subject to the suitability of each investment opportunity for the particular client (i.e., fund(s)) and the availability of cash for investment.

PCIM III has the discretion to enter into agreements, or "side letters" with certain prospective or existing investors or limited partners whereby such investors or limited partner (including such persons that may be affiliated with PCIM III or its affiliates) may be subject to terms and conditions that are more advantageous than those set forth in the Funds' applicable offering memoranda.

For example, such terms and conditions may provide for special rights to make future investments in such funds; specific geographic preferences for investment; special redemption rights, including those relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the investors or limited partners and/or other terms; rights to receive reports on a more frequent basis or that include information not provided to other investors or limited partners (including, without limitation, more detailed information regarding investments in such fund) and such other rights as may be negotiated by the investors or limited partners. Any acceptance or modifications to the terms of the such side letter is solely at the discretion of PCIM III (including such persons that may be affiliated with PCIM III or its affiliates) and may, among other things, be based on the size of an investor's or limited partner's investment in such fund(s) or affiliated investment entity, an agreement by an investor or limited partner to maintain an investment in such fund for a

significant period of time, or other similar commitment by an investor or limited partner to such fund.

In the event that (i) an opportunity to invest in any individual investment is Suitable (as defined below) for more than one fund managed by Pembroke or its affiliates, Pembroke will offer such investment opportunity to each such fund, on a *pari passu* basis, or (ii) an opportunity to invest in any individual investment is suitable for the Funds on the one hand, and any other fund (including any other fund sponsored or managed by PCIM III or its affiliates), on the other hand, Pembroke will apportion such investment opportunity to Fund III and such other fund as co-investors, as determined by Pembroke in its sole discretion, and, except as provided in clauses (i) and (ii) above, neither Pembroke, PCIM III, nor any member, nor any of their respective members, partners, managers, directors, officers, shareholders, affiliates or employees, shall, to the fullest extent permitted by law, have any obligation to disclose or refer any opportunity to invest in an investment or other opportunity to PCIM III or any member thereof.

“Suitable” (or “Suitability”) means, with respect to any proposed investment for which Suitability is proposed to be determined with respect to any fund, that (i) such investment is consistent with the purposes of such fund, (ii) such fund has sufficient funds to consummate such investment, (iii) such investment is consistent with any written investment guidelines of such fund, (iv) such investment is within the period for the making of capital contributions by investors in such fund, (v) the term of such investment is consistent with the term of such fund, including any extensions thereof, (vi) such investment is consistent with the anticipated current and prospective capital transactions with respect to the investments of such fund, (vii) such fund has access to financing sufficient to consummate such investment, (viii) such investment is advisable in light of the alternative investments under consideration by such fund, (ix) such investment’s size is appropriate in light of the size of such fund’s capitalization, (x) the cost of such investment is appropriate in light of the investment objectives of such fund, (xi) such investment is not inconsistent with the net worth and/or liquidity covenants to which such fund is subject, (xii) such investment is consistent with such fund’s objectives with respect to “qualified investments” under the CRA or applicable CRA regulations, and (xiii) such investment is consistent with such other considerations as the manager determines to be reasonable.

Item 7 – Types of Clients

As indicated above, PCIM III's only clients are the Funds, each of which is a domestic limited liability company pooled investment vehicle. The types of investors in the Funds will generally be pension funds, family offices, commercial banks and high net worth individuals. However, any investor who qualifies as an "accredited investor" as defined in Regulation 501(a) of Regulation D under the Securities Act and a "qualified purchaser" as defined under Section 2(a)(51) of the Investment Company Act may be considered a permissible investor. In general, natural persons must own at least \$5,000,000 in investments, and entities at least \$25,000,000 in investments, in each case as defined under the Investment Company Act. The minimum commitment for Fund III and Fund III Preferred is \$10 million, which PCIM III may reduce at its own discretion.

It is Pembroke's policy not to disclose private information to any other party and to confirm that any personal information is adequately safeguarded. Individual investors will be given a Privacy Notice upon investing in the Funds, and material changes (if any) to Pembroke's privacy policy will be reflected in the Privacy Notice and will be distributed to investors on an annual basis, as necessary.

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

- A. PCIM III believes that the asset management process begins within the origination phase and is integral to the underwriting of a transaction. Asset management is involved in the final review and approval of all transactions. Upon closing of a loan and once all information is verified and placed on the loan monitoring system, transactions are reviewed quarterly for covenant compliance and cash flow performance.

Critical to the review are the following items:

- Financial statements to assess current and prospective debt service coverage
- A current market analysis
- A property level leasing and occupancy review
- A progress report detailing the property's progress in achieving its business plan and any resulting impact on the viability of the exit strategies
- A reserve report for monitoring interest shortfalls, tenant improvement allowances, and other capital expenditures

PCIM III leverages its senior resources by using third party servicers to execute certain back office functions at the asset level. Such servicers are rated and follow Commercial Mortgage Securities Association (“CMSA”) standards and include well-known market participants such as Key Bank and Bank of America. Furthermore, PCIM III believes in the ability to utilize technology to lever the expertise of the management team and has invested in proven and scalable technology.

PCIM III also monitors macro real estate and local market metrics through their various industry contacts to further verify quality of the portfolio. The management team takes a proactive approach to potential collateral issues by working directly with a borrower and any co-lenders in order to aggressively defend the interests of the Fund. The management team's experience as owners and developers of real estate in all product types allows for a high level of assistance in problem situations and, if ever necessary, a willingness to assume an owner's position.

Investing in securities involves risk of loss that clients should be prepared to bear.

- B. At times in this Item 8, Fund III and Fund III Preferred may be referred to, individually and/or collectively, as the “**Fund**.”

The Fund may rely upon projections developed by PCIM III, Pembroke or the management of an entity in which the Fund invests concerning the investment's future performance and cash-flow.

Projections are inherently subject to uncertainty and factors beyond the control of PCIM III or Pembroke. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of the Fund or the entities in which it invests to realize projected values and cash-flows.

Members holding interests are subject to investment and trading risks in general.

All investments risk the loss of capital. No guarantee or representation is made that each Fund's program will be successful, and investment results may vary substantially over time. The Fund's investment program may use asset management tools such as interest rate hedges, caps, derivatives and margin transactions which practices can, in certain circumstances, maximize the adverse impact to which each Fund may be subject.

Interest rate fluctuations may cause losses.

The Fund will bear interest rate exposure related to its investments and variable-rate debt, as well as its interest rate swaps and caps that the Fund primarily intends to utilize for hedging purposes. Changes in interest rates will affect the Fund's net interest income, which is the difference between the interest income the Fund earns on its interest-earning investments and the interest expense the Fund incurs in financing these investments. Changes in interest rates also may affect the Fund's ability to originate and acquire assets, the value of the Fund's assets and the Fund's ability to realize gains from the disposition of such assets.

In a period of rising interest rates, the Fund's floating interest expense could increase, while the interest the Fund earns on its fixed-rate debt investments would not change. This would adversely affect the Fund's profitability. In addition, any increase in interest rates will increase the aggregate distributions payable by Fund III Preferred on its Preferred Interests (which are based on a variable rate which will decrease the distributions available to be made by Fund III Preferred to Fund III as holder of common limited liability company interests of Fund III Preferred) and, therefore, will reduce the amount available to pay distributions to the Members.

The Fund's operating results will depend in large part on differences between the income from its assets and financing costs. The management team anticipates that, in most cases, for any period during which the Fund's assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of its borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly adversely influence the Fund's net income. Increases in these rates will tend to decrease the Fund's net income and market value of its assets. Interest rate fluctuations resulting in the Fund's interest expense exceeding interest income would result in operating losses for the Fund.

C. *The Fund's real estate investments are subject to risks particular to real property.*

The Fund will own assets secured by real estate and may, occasionally, own real estate directly. Real estate will be subject to various risks, including: (i) acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001; (ii) adverse changes in national and local economic and

market conditions; (iii) changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; (iv) costs of remediation and liabilities associated with environmental conditions such as indoor mold; and (v) the potential for uninsured or under insured property losses. If any of these or similar events occurs, it may reduce the Fund's return from an affected property or investment and reduce or eliminate the Fund's ability to make distributions to Members.

The Fund will invest in commercial mortgage loans, and will face special risks relating to commercial mortgage loans.

Commercial mortgage loans have certain distinct risk characteristics. Mortgage loans on commercial properties generally lack standardized terms, which may complicate their structure and increase due diligence costs. Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than non-commercial properties and to the corresponding burdens and costs of compliance with environmental laws and other regulations.

Commercial mortgage loans also tend to have shorter maturities than residential mortgage loans and are generally not fully amortizing, which means that they may have a significant principal balance or "balloon" payment due on maturity. Mortgage loans with a balloon payment involve a greater risk to a lender than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend upon its ability either fully to refinance the loan or to sell the property securing the loan at a price sufficient to permit the borrower to make the balloon 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 property, the level of available mortgage rates at the time of sale or refinancing, the borrower's equity in the property, the financial condition and operating history of the property and the borrower, tax laws, prevailing economic conditions and the availability of credit for loans secured by the specific type of property.

Commercial mortgage loans generally are non-recourse to borrowers, excluding certain so-called "bad-boy" recourse carve-outs. In the event of foreclosure on a commercial mortgage loan, the value at that time of the collateral securing the mortgage loan usually will be less than the principal amount outstanding on the mortgage loan and the accrued but unpaid interest thereon, resulting in a loss.

Commercial mortgage loans are also subject to the effects of (i) the ability of tenants to make timely payments, (ii) the ability of a property to attract and retain tenants, which may in turn be affected by local conditions such as oversupply of space or a reduction in demand for rental space in the area, the attractiveness of properties to tenants, competition from other available space and the ability of the owner to pay leasing commissions, provide adequate maintenance and insurance, pay tenant improvement costs and make other tenant concessions, (iii) interest rate levels and the availability of credit to refinance such loans

prior to maturity, (iv) compliance with regulatory requirements and applicable laws, including environmental controls and regulations, and (v) increased operating costs, including energy costs and real estate taxes. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties and such tenants may seek in protection of the bankruptcy laws which can result in the rejection of lease contracts. In addition, while commercial properties generally will carry comprehensive liability and casualty coverage, such coverage may not provide full protection for the value of the underlying property and may not protect against all casualty losses, including damage due to floods, earthquakes, hurricanes and terrorism.

If the properties securing the mortgage loans do not generate sufficient income to meet operating expenses, debt service, capital expenditure and tenant improvements, the obligors under the mortgage loans may be unable to make payments of principal and interest in a timely fashion. Income from and values of commercial properties are also affected by such factors as the quality of the property manager, applicable laws, including tax laws, interest rate levels, the availability of financing for owners and tenants and the impact of and costs of compliance with environmental controls and regulations.

The Fund's investments in mezzanine loans and subordinated loans involve greater risks of loss than senior loans.

The Fund intends to invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property, because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, the Fund may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy the Fund's mezzanine loan. If a borrower defaults on the Fund's mezzanine loan or debt senior to the Fund's loan, or in the event of a borrower bankruptcy, the Fund's mezzanine loan will be satisfied only after the senior debt. As a result, the Fund probably will 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.

Preferred equity investments involve a greater risk of loss than traditional debt financing and specific risks relating to particular issuers.

The Fund may invest in preferred securities including those of REITs and real estate operating companies. Preferred equity investments involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to debt and are not secured by property underlying the investment. Furthermore, should an issuer of preferred equity default on the Fund's investment, the Fund would only be able to proceed against the issuer, and not the property owned by the issuer and underlying the Fund's investment. In most cases, a preferred equity holder has

no recourse against an issuer for a failure to pay stated dividends; rather, unpaid dividends typically accrue and the preferred shareholder maintains a liquidation preference in the event of a liquidation of the issuer of the preferred securities. There can be no assurance that an issuer would have sufficient assets to satisfy any liquidation preference to which the Fund may be entitled. As a result, the Fund may not recover some or all of its investments in preferred equity securities.

Bridge loans will involve a greater risk of loss than traditional insured and investment grade mortgage loans.

The Fund intends to provide bridge loans secured by first lien mortgages on properties to borrowers who are typically seeking short-term capital to be used in an acquisition and renovation of property. The borrower has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and the Fund bears the risk that the Fund may not recover some or all of the Fund's investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan. Bridge loans, therefore, are subject to a borrower's ability to obtain permanent financing to repay the bridge loan. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by the Fund, the Fund bears the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the bridge loan. To the extent the Fund suffers such losses with respect to the Fund's investments in bridge loans, the value of the Fund will be adversely affected.

Prepayment rates can increase, adversely affecting yields on the Fund's investments.

The value of the Fund's assets may be affected by prepayment rates on mortgage loans. Prepayment rates on mortgage loans are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond the Fund's control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining mortgage interest rates, prepayments on mortgage loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by the Fund in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of the mortgage assets may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Under certain interest rate and prepayment scenarios the Fund may fail to recoup fully its cost of acquisition of certain investments.

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could harm the Fund's operations.

PCIM III believes the risks associated with its business will be more acute during periods of economic slowdown or recession, because these periods generally are accompanied by declining real estate values. Declining real estate values will likely reduce the Fund's level of new mortgage loan originations, because borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Further, declining real estate values significantly increase the likelihood that the Fund will incur losses on its loans in the event of default. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both the Fund's net interest income from loans in its portfolio as well as PCIM III's ability to originate and finance loans, which would significantly harm its revenues, results of operations, financial condition, business prospects and PCIM III's ability to make distributions to its Members.

The Fund may not be able to access financing sources on favorable terms, or at all, which could adversely affect the Fund's return; leverage could increase the Fund's risk.

The Fund's return on investment depends, in part, upon its ability to increase its invested assets through the use of leverage at a cost of debt that is lower than the yield earned on its investments. The Fund's failure to obtain and/or maintain a leverage-to-equity ratio at currently targeted levels (but limited to a 1:1 overall leverage-to-equity ratio, including true debt of the Fund, Fund III Preferred but not including distributions in respect of the Preferred Interests), or to obtain leverage on attractive terms, would have an adverse effect on the Fund's performance. The Fund's ability to obtain traditional financing of its assets is subject to conditions in the debt capital markets, which are affected by the factors beyond its control.

Leverage will magnify the profits or losses of the Fund. The level of interest rates at which the Fund can borrow will affect the operating results of the Fund, and the terms of any refinancing may not be as favorable as the terms of the debt being refinanced. In the event of a sudden precipitous drop in the value of the Fund's assets, cash flow from operations may not be sufficient to make required payments of principal and interest, resulting in the loss of some or all of the Fund's assets to foreclosure or forced sale in order to satisfy debt obligations. The Fund may be required to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, distributions and other purposes.

The Fund expects many of its investments to be illiquid and the Fund may not be able to vary the Fund's portfolio in response to changes in economic and other conditions.

The Fund's mortgage loan investments and other real estate finance-related investments are relatively illiquid and some are highly illiquid. Such illiquidity may limit the Fund's ability to vary its portfolio in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale. In addition, illiquidity may result from

the decline in value of a property securing these investments. Illiquid investments may require a significant amount of time from the date of initial investment before disposition. The Fund cannot make assurances that the fair market value of any of the real property serving as security will not decrease in the future, leaving the Fund under-collateralized or not collateralized at all, which could impair the liquidity and value, as well as its return on such investments. Sales of such illiquid investments may not be possible and, if possible, may be at the substantial discounts from cost.

Fund III Preferred

The above-listed risks in this Item 8 apply to Fund III and, as relevant, Fund III Preferred, based on the fact that Fund III Preferred is a wholly owned subsidiary of Fund III. However, the below-listed risks are specifically applicable to Fund III Preferred based on its strategy and the type of securities involved.

Fund III Preferred depends upon the current interpretation of the CRA and other banking regulations and the applicable regulations thereunder.

Changes in the laws and regulations related to the CRA or other banking laws and regulations, and the interpretation of such laws and regulations, could impede Fund III Preferred's ability to realize its investment objectives. CRA regulations heavily influence the ability of financial institutions to originate investments qualifying under the CRA, as well as Fund III Preferred's ability to allocate CRA Investments to holders of the Preferred Member Interests. Changes to the CRA or its related regulations, or to other banking laws and regulations affecting the financial institutions who invest in Fund III Preferred, could interfere with Fund III Preferred's operations and criteria for properly allocating CRA investments and hamper Fund III Preferred's ability to meet its investment objectives.

Fund III Preferred may target investments with unfavorable or below-market yields or returns in order to make CRA Investments available to holders of its Preferred Member Interests.

In order to make CRA Consideration available to holders of its Preferred Member Interests, Fund III Preferred will invest only in investments that it believes should receive positive consideration under the CRA. In doing so, Fund III Preferred may decide that it is in the best interest of Fund III Preferred and the holders of Preferred Member Interests to pay premiums for such CRA Investments. Although Fund III Preferred intends to target the most attractive available CRA Investments, it is possible that such investments may result in reduced yields or returns to Fund III Preferred, or yields that are not as favorable as comparable investments that are not CRA-eligible.

The CRA Rating Agencies may not consider the Preferred Member Interests “qualified investments” under the CRA.

The CRA Rating Agencies do not deem specific investments, including the Preferred Member Interests, as “qualified” at the time of their issuance. Rather, the final determination as to the “qualified” nature of investments is made by the CRA Rating Agencies as part of their evaluation process. Based on the interpretive rulings of the CRA Rating Agencies, Fund III Preferred believes that the Preferred Member Interests will more likely than not be deemed “qualified investments” and will more likely than not entitle holders of the Preferred Member Interests to receive positive consideration by the CRA Rating Agencies. However, the CRA Rating Agencies will ultimately decide, in the course of their periodic examinations whether financial institutions may properly receive CRA Consideration resulting from all or a portion of their respective investments in the Preferred Member Interests. There can be no assurance that the CRA Rating Agencies will deem investments in the Preferred Member Interests as “qualified” investments under the CRA or that holders of such Preferred Member Interests are entitled to CRA Consideration as a result of such investments.

Fund III Preferred may dispose of CRA investments that are allocated to a specific holder of Preferred Member Interests, and there is no guarantee that Fund III Preferred will acquire new CRA investments yielding CRA Consideration for such holder.

PCIM III will invest only in investments that PCIM III believes should receive positive consideration under 12 C.F.R. § 25.23 as a “qualified investment” for purposes of the CRA. Although Fund III Preferred will use commercially reasonable efforts to accommodate Members holding Fund III Preferred’s Preferred Member Interests in the allocation of available CRA Consideration, Fund III Preferred cannot guarantee that, following the disposition of an investment that satisfies a specific Member’s CRA criteria, it will acquire an additional investment addressing such Member’s CRA requirements.

Fund III Preferred cannot guarantee that CRA Consideration will be available to all holders of its Preferred Member Interests.

Following initial CRA allocations as described herein, Fund III Preferred will use commercially reasonable efforts to originate or acquire CRA investments; there can be no assurance that Fund III Preferred will be able to obtain investments yielding CRA Consideration in the designated assessment areas of all of the Preferred Members. If Fund III Preferred does obtain CRA investments in the designated assessment area of a Preferred Member, there can be no assurance that such Preferred Member will receive all of the CRA Consideration associated with such CRA investments. Further, the ability of Fund III Preferred to allocate CRA Consideration to a holder of Preferred Member Interests according to such holder’s designated assessment area may be limited by the concentration, product type and other investment restrictions placed upon Fund III Preferred.

Item 9 – Disciplinary Information

- A.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.
- B.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.
- C.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any self-regulatory organization proceedings.

Item 10 – Other Financial Industry Activities and Affiliations

- A. Neither PCIM III nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither PCIM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Pembroke and related entities invest, on behalf of their clients, in and originate commercial real estate debt to finance all parts of a capital structure from first mortgages, mezzanine, bridge loans and commercial mortgage-backed securities, as well as preferred equity and loans for real estate operating companies.

PCIM III also has a relationship with Mariner through its indirect ownership of PCIM III. Through its affiliation with PCM and Mariner, PCIM III has several related persons. A full list of those persons can be found on Schedule D of PCM's Form ADV.

The Fund may enter into arrangements whereby its affiliated broker-dealer, Mariner Group Capital Markets, Inc., and certain of its registered representatives (hereinafter collectively referred to as “MGCM”), will act as the marketing agent (e.g., placement agent, finder, solicitor, etc.) for the Fund in the placement of Interests. Pursuant to such arrangements, if any, the Fund may pay to MGCM a placement fee with respect to Interests placed by MGCM. The Advisory Fee payable to PCIM III will be reduced to the extent of such placement fees are paid by the Fund. The Members will not be subject to the payment of sales commissions or additional compensation to MGCM as a result of any such placement arrangements. Pursuant to such arrangements, if any, MGCM registered representatives are acting solely and exclusively on behalf of the Fund, and not on behalf any Member or prospective Member. More specifically, MGCM registered representatives, in their capacity as marketing agents and to the extent of such arrangements are acting solely as “finders”, and do not and will not, among other things, carry any customer or other account, or receive or hold money or others assets of a referred investor or any other person. MGCM is a registered limited purpose broker-dealer and generally serves as placement agent in private offerings and does not execute any trades on behalf of PCIM III (the Managing Member), the Funds, or any of its client accounts.

Side Letters. As mentioned above in Item 6, PCIM III has the discretion to enter into side letters with prospective or existing investors or limited partners. Side letters have been or will be entered into with certain investors in the Funds to achieve investment objectives consistent with the Funds' investment strategy and with such investors' desire to invest in assets that will, more likely than not, qualify for CRA Consideration in specified geographic areas.

An important part of Fund III Preferred's strategy is to include in its investments certain real estate debt and, to a lesser extent, preferred equity associated with underserved property types and markets that benefit from regulatory advantages, such as low and

moderate income housing and commercial, retail and other property types in low and moderate income areas. This may present certain regulatory advantages regarding interests in Fund III Preferred that are subject to the **CRA**. Property types are primarily multifamily, office and retail, and a portion of these investments could bring new capital to community development and generate positive consideration (“**CRA Consideration**”) the under CRA investment test (“**CRA Investments**”). The Adviser may enter into side letters which delineate specific investment qualifications based on CRA Investments or specific investment criteria (self-delineated assessment areas) or capital earmarks for specific CRA Investments. The presence of such side letters and the investment qualifications and investment criteria they contain may influence the Adviser to consider investments that may not have otherwise been considered for the portfolio. Side letters may also contain most favored nation provisions under which certain members of Fund III Preferred are guaranteed the same rights as members making capital commitments equal to or less than the investor entering into the side letter.

Relying Advisers. PMH, PCIM, PCIM III and PCIM IV (each, a “**Relying Adviser**” and, collectively, “**Relying Advisers**”) serve as manager, managing member or investment manager with respect to one or more Pembroke clients. While PCM and the Relying Advisers have been organized as separate legal entities, they collectively conduct a single investment advisory business. Accordingly, each Relying Adviser relies and/or will rely on PCM’s investment adviser registration instead of separately registering as an investment adviser with the SEC under the Advisers Act. To rely on PCM’s registration, (i) the Relying Adviser, its employees and persons acting on its behalf will be “persons associated with” and “supervised persons” (as each term is defined in the Advisers Act) of PCM, (ii) any investment advisory services will be subject to PCM’s supervision and control, (iii) any investment advisory functions will be subject to the Advisers Act and the rules and regulations thereunder, and (iv) the activities and books and records of the Relying Adviser will be subject to inspection and examination by the SEC. Each Relying Adviser will be subject to PCM’s compliance policies and procedures and, except as the context otherwise requires, any reference in this brochure to Pembroke and/or PCM includes both PCM and the Relying Advisers. PCM has disclosed in the Miscellaneous Section of Schedule D of Part 1A of its Form ADV that PCM and each of the Relying Advisers are together filing a single Form ADV in reliance upon guidance expressed in a SEC no-action letter.

PCIM III has a relationship with The Back Office Services Group, LLC (“**BOSG**”), which provides administrative services to the Funds. BOSG is a subsidiary of MIG Holdings, LLC, and is therefore considered an affiliate of Pembroke. Pembroke and MIG Holdings, LLC have entered into a joint support services agreement whereby BOSG provides certain support services to the Funds and PCIM III and its affiliates. Services provided by BOSG under the agreement include certain back office administration and accounting services.

BOSG receives fees from the Funds for such services. Although such fees were not negotiated at arm’s-length, Pembroke believes the fees are reasonable in relation to the services provided and consistent with prevailing charges from third party providers of the same services. PCIM III may terminate its relationship with BOSG as necessary and employ another affiliated or unaffiliated entity to perform such services.

D. PCIM III does not recommend or select other investment advisers for its clients.

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

A. Pembrook has adopted a code of ethics as required by Rule 204A-1 under the Investment Advisers Act. The code of ethics requires employees to conduct business with the highest ethical standards and always put the client interests above the interests of themselves and restricts them from purchasing securities in which their clients may invest. It requires employees to report any violations immediately to the Chief Compliance Officer. It also addresses:

- Employee personal trading including:
 - Reporting personal securities transactions
 - Preclearance of certain transactions
 - Annual reporting of securities holdings
- Limits and reporting requirements on gifts and entertainment
- Limits and reporting requirements for political contributions
- Employees are required to acknowledge receipt of the code
- Electronic Communication and Social Media Policy

A copy of the code of ethics is available upon request.

Pembrook has adopted other policies to protect the interest of its clients and prevent violations of applicable laws as required by Rule 206(4)-7 under the Investment Advisers Act (“**Rule 206(4)-7**”). In accordance with Rule 206(4)-7, Pembrook reviews these policies and procedures no less frequently than annually to ascertain their effectiveness and determine whether they are being adequately followed.

B-D. Compensation of the investment professionals for PCIM III generally consists of salary, discretionary bonus and may, but do not currently, receive a percentage of the incentive fee earned by PCIM III.

MGCM and its registered representatives, who are also employees of Mariner Investment Group, LLC have an indirect financial interest in the distribution of the securities offered for sale by the Fund. Pembrook has also retained, or may retain, the services of non-affiliated third-party placement agents that are financially incentivized to make investment recommendations. Notwithstanding the potential conflicts of interest referenced above, please note that all remuneration paid to MGCM or any other third-party placement agent shall be paid by Pembrook and NOT Fund investors.

PCIM III, Pembrook nor any such related persons do not invest in the same securities that PCIM III recommends to clients. PCIM III, Pembrook nor any such related persons do not buy or sell the securities for their own that are recommended to, or bought/sold on behalf of clients.

Item 12 – Brokerage Practices

- A.** This policy is not related to the selection of real estate brokers from whom Pembroke may receive opportunities to invest in real estate loans, as such transactions are concluded directly with the respective borrowers and are not subject to such brokers' ability to process such transactions or dependent on such brokers' financial strength. However, it is Pembroke's intention at all times to work with proven and reputable real estate brokers. PCIM III does not currently engage in trading transactions on behalf of the Fund or utilize the services of broker dealers for transaction related services. In the event PCIM III were to select or recommend broker-dealers for Fund transactions, PCIM III would seek best execution of transactions and allocate transactions to broker-dealers for execution on markets/exchanges and at prices and commission rates that in PCIM III's good faith judgment are in the best interest of the Funds. PCIM III does not enter into any agreement with any broker/dealer to obtain any research from third party providers or from the broker/dealer in exchange for agreeing to direct a certain level of commissions to that broker or dealer.

PCIM III does not consider any client referrals when selecting broker/dealers.

- B.** PCIM III can aggregate the purchase or sale of securities for client accounts via co-investment as discussed above in Item 6.

Item 13 – Review of Accounts

- A.** Senior management of Pembroke engages in ongoing surveillance of the holdings and investments made by each Fund. Management will receive weekly and quarterly reports to assist them in the management of Fund assets which will also include a summary of all investments.
- B.** Management intends to also perform ad hoc testing to confirm that each Fund's investments are within the parameters set by the Fund.
- C.** PCIM III provides reports to Fund investors quarterly and may provide interim reports as well.

Item 14 – Client Referrals and Other Compensation

- A.** Pembroke does not receive an economic benefit from any non-client source with respect to providing investment advice or other advisory services to its clients.
- B.** Neither Pembroke nor any of its related persons directly or indirectly compensates any person who is not a Pembroke supervised person for client referrals.

MGCM and its registered representatives, who are also employees of Mariner Investment Group, LLC have an indirect financial interest in the distribution of the securities offered for sale by the Fund. Pembroke has also retained, or may retain, the services of non-affiliated third-party placement agents that are financially incentivized to make investment recommendations. Notwithstanding the potential conflicts of interest referenced above, please note that all remuneration paid to MGCM or any other third-party placement agent shall be paid by Pembroke and NOT Fund investors.

Item 15 – Custody

PCIM III is deemed to have a form of custody of Fund assets (funds or securities) due to the ability to deduct fees from Funds, even though indirectly through the administrator.

Unless otherwise approved by Pembroke’s CEO or his designee, Fund assets will be custodied with qualified custodians (collectively, the “**Custodians**”). The Custodians will hold the assets either (i) in a separate account under the client’s name; or (ii) in an account containing only the client’s assets under Pembroke’s name, as agent or trustee for the client.

Pembroke consulted with counsel and concluded that loan agreements and promissory notes for the benefit of Pembroke’s clients are not required to be custodied with the Custodians. It is Pembroke’s policy to hold such agreements and notes in a secured, fire-proof location within Pembroke’s offices. Certain of these agreements may be used as collateral to finance certain investments made by PCIM III on behalf of the Funds. In such event, the lenders, which are U.S. commercial banks, normally will require that they physically hold the agreements until such time as the financing is repaid in full.

As required by the Custody Rule, an annual audit of Fund III (which includes Fund III Preferred, as the wholly owned subsidiary of Fund III) will be conducted by an independent public accountant that is subject to inspection by the Public Company Accounting Oversight Board. Additionally, the Fund financial statements will be prepared in accordance with U.S. Generally Accepted Accounting Principles (“**GAAP**”), and distributed within 120 days of the fiscal year-end. These reports will be in written form and clients should carefully review those statements.

Item 16 – Investment Discretion

PCIM III has full discretion over Fund transactions, and client directed brokerage is not permitted.

Item 17 – Voting Client Securities

A&B. PCIM III generally does not intend on investing in equity securities that regularly vote shares. However, PCIM III has adopted a proxy policy should a proxy vote arise or to handle any class actions. Should any matters arise that require a vote of the holders of any securities held by either Fund, senior management of Pembroke would review the issue or issues to be voted on and cast their votes in the best economic interest of the Fund. A copy of the proxy voting policy and a record of all votes cast by PCIM III on behalf of the Funds may be obtained by mailing the request to the attention of Robert Hellman at Pembroke Capital Management LLC, 485 Madison Avenue, 22nd Floor, NY, NY 10022 or emailing the request to rhellman@pembrookgroup.com.

Item 18 – Financial Information

Not Applicable