
FORM ADV PART 2A: FIRM BROCHURE

ITEM 1 – COVER PAGE

LIONHEART STRATEGIC MANAGEMENT, LLC

March 31, 2024

605 Third Avenue
36th Floor
New York, NY 10158

This document (the “Brochure”) provides information about the qualifications and business practices of Lionheart Strategic Management, LLC. If you have any questions about the contents of the Brochure, please contact Andrew Mandelbaum at amandelbaum@lionheartstrategic.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Although the firm may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

Additional information about the firm is also available on the SEC’s website at <http://www.adviserinfo.sec.gov>.

ITEM 2 – MATERIAL CHANGES

Since the last annual update to the Brochure, dated April 10, 2023, Lionheart Strategic Management, LLC has updated (i) certain personnel references (including its Chief Compliance Officer and General Counsel) and (ii) the description of the business practices and advisory services of Lionheart Strategic Management, LLC, including with respect to certain investment risks and other risks.

ITEM 3 – TABLE OF CONTENTS

ITEM 1 – COVER PAGE	1
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	6
ITEM 7 – TYPES OF CLIENTS	7
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	7
ITEM 9 – DISCIPLINARY INFORMATION	14
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	14
ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	15
ITEM 12 – BROKERAGE PRACTICES	16
ITEM 13 – REVIEW OF ACCOUNTS	16
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	17
ITEM 15 - CUSTODY	17
ITEM 16 – INVESTMENT DISCRETION.....	18
ITEM 17 – VOTING CLIENT SECURITIES.....	18
ITEM 18 – FINANCIAL INFORMATION	18

ITEM 4 – ADVISORY BUSINESS

A. General Description of the Advisory Firm

Lionheart Strategic Management, LLC (“Lionheart” or the “Firm”), is a Delaware limited liability company established in 2017 that provides investment advisory services to pooled investment vehicles and an alternative investment program. The principal owner of the Firm is LSM Master Holding Company LLC (“Holdco”). A majority of the principal owners of Holdco also are principal owners of Fisher Brother Management Co. LLC, a real estate development firm (together with certain affiliates, “Fisher Brothers”). Although the Firm is affiliated with Fisher Brothers, it is governed by a majority independent board of directors, operates independently and conducts its investment advisory business separately from the business of Fisher Brothers.

B. Description of Advisory Services

The business of Lionheart is primarily to provide investment advisory and management services to commingled investment funds, separate accounts or other investment vehicles or programs that invest in credit and mezzanine capital investments as described herein.

Currently, Lionheart provides discretionary advisory and management services to Lionheart Mezzanine Capital Investors, LP (“LMCI” or “Fund,” and together with any future privately offered investment fund sponsored by Lionheart, the “Funds”). In addition, Lionheart provides non-discretionary advisory and management services to two alternative investment programs with institutional investors (“LRECS” and “LRECS II”, together the “AIP Clients”). Currently, LMCI and LRECS are substantially invested, and no new capital is being accepted.

Lionheart may provide discretionary and non-discretionary advisory and management services to other investment funds and institutional investors in the future.

The Firm also provides administrative services with respect to the real estate-related loans and preferred equity investments of certain institutional separate account clients (the “Separate Accounts”, and together with the Funds and AIP Clients, the “Clients”).

The advisory services provided by Lionheart to the Clients are primarily with respect to real estate credit investments. Specifically, the Funds were formed to, directly and indirectly, acquire credit and mezzanine capital investments in mortgages, junior notes and participations, preferred equity, mezzanine debt, and other real estate-related debt and debt-like investments secured by or deriving value from real estate-related assets located in the United States. Investments may be acquired individually or may consist of a portfolio or other group of assets purchased in a single transaction or series of related transactions, and similar pools of debt and debt-like investments secured by real estate. The Firm does not intend to make any material investments in any properties owned or controlled by Fisher Brothers.

C. Tailored Advisory Services

Lionheart provides advisory services to the Funds in accordance with the terms set forth in the operating agreement of the Fund or AIP Client and/or the investment management agreement between Lionheart and the Client (the “Governing Documents”), including investment guidelines. Among other things, these guidelines may provide for limits on the size, concentration, geography, type of security and/or terms of the Funds’ investments. Investors should refer to the Governing Documents of the Funds or other Clients

for complete information regarding investment objectives and restrictions. There is no assurance that the investment objectives of the Clients will be achieved.

The administrative services to the Separate Accounts are provided in accordance with the terms set forth in the servicing agreement with each Separate Account (the “Servicing Agreements”). Lionheart does not provide any investment advice or recommendations to the Separate Accounts under the Servicing Agreements.

D. Wrap Fee Programs

Lionheart does not participate in wrap fee programs.

E. Assets Under Management

As of December 31, 2023, Lionheart managed assets of approximately \$22,400,000 on a discretionary basis and \$479,102,980 on a non-discretionary basis.

ITEM 5 – FEES AND COMPENSATION

A. Compensation for Advisory Services

In consideration of the management and advisory services provided by Lionheart to the Clients, the Clients pay fees to Lionheart in accordance with their respective Governing Documents.

LMCI Fees

Lionheart receives Base Management Fees and Supplemental Management Fees from LMCI (together, the “LMCI Management Fees”). The Base Management Fee is payable quarterly in advance and calculated as 1.0% per annum of each limited partner’s aggregate invested capital in LMCI as of the last day of the preceding quarter.

The Supplemental Management Fee is payable in arrears upon the realization of each LMCI investment and calculated as 0.50% per annum of each limited partner’s aggregate invested capital in such investment. The Supplemental Management Fee shall not be payable for any investment for which less than one hundred percent (100%) of the capital contributions made by the limited partners has been distributed.

The LMCI Management Fees shall be prorated for any partial calendar quarters. Additionally, Lionheart has the right, in its absolute discretion, to waive, reduce, offset or otherwise return to certain investors all or a portion of the LMCI Management Fees received by Lionheart with respect to such investors.

LRECS and LRECS II Fees

The management fee, origination fee and underwriting fee paid to Lionheart by LRECS and LRECS II is described in each AIP Client’s respective Governing Documents. Lionheart also receives performance-based compensation from LRECS and LRECS II equal to a percentage of the realized gains of LRECS or LRECS II assets (as applicable) managed by Lionheart as described in the Governing Documents.

Since management fees paid to Lionheart by LMCI, LRECS and LRECS II are based on the invested capital of each Fund, a conflict may also arise when Lionheart or a related person is valuing the assets held in the Client account. Assets will generally be valued at fair value by Lionheart or its related person in accordance with U.S. generally accepted accounting practices.

Separate Account Fees

The fees paid to Lionheart by Separate Accounts are generally subject to negotiations and described in their respective Servicing Agreements. Such fees may be a fixed dollar amount or calculated based on a percentage of the outstanding amounts of any loans and/or preferred equity investments that are the subject of the Servicing Agreements.

B. Charging Fees

Lionheart primarily deducts fees from the assets of the Clients. With respect to LMCI, the Base Management Fee is payable quarterly and the Supplemental Management Fee, if applicable, is payable upon the realization of investments.

C. Other Fees and Expenses

In addition to compensation payable to Lionheart, the Funds and AIP Clients are responsible for paying the operating expenses of their accounts, including brokerage fees, transaction costs and other investment-related expenses; administrative, accounting and custody expenses; and other expenses described in their respective Governing Documents. The Firm may, at its discretion, choose to pay or reimburse a Fund or AIP Client for all or any portion of such expenses. In such event, the Firm may be reimbursed at a later date by the Fund or AIP Client for such expenses borne by the Firm. See Item 12 for additional information about the Firm's brokerage practices with respect to Fund and AIP Client accounts.

D. Timing of Fee Payments

As described above and in the Governing Documents, fees are generally paid quarterly in advance or arrears, as circumstances dictate. Accounts initiated or terminated during the relevant periods are charged pro-rated fees, and any unearned portion of a fee paid at the beginning of the quarter will be refunded by Lionheart to the Fund or AIP Client.

E. Payments to Supervised Persons

Neither Lionheart nor any of its covered persons or supervised persons directly or indirectly receive any compensation from the sale of securities or other investment products.

ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

LMCI does not charge any performance-based fees. The performance-based fees for LRECS and LRECS II are set forth in its Governing Documents. Fees based on performance will only be charged in accordance with the provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Performance-based compensation may create an incentive for Lionheart to cause LRECS and/or LRECS II to make investments that are riskier than it would otherwise make.

As some, but not all, Clients pay performance-based compensation, Lionheart has an incentive to treat such Clients preferentially as compared to others because those Clients pay performance-based compensation. Lionheart has adopted a policy to allocate portfolio transactions and investment opportunities across multiple Client accounts on a fair and equitable basis over time.

ITEM 7 – TYPES OF CLIENTS

Lionheart provides advisory services to LMCI, which is a pooled investment vehicle, and to LRECS and LRECS II, which are non-discretionary alternative investment programs for institutional investors. The underlying investors of LMCI include individuals, trusts, corporations and institutional investors that invest at least the minimum investment amount described in its Governing Documents.

The investor suitability requirements for the investors in each Fund are set forth in the Governing Documents for such Fund.

The Separate Accounts facilitate the provision of loan servicing and other administrative services to institutional investors in real estate-related loans and preferred equity investments.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

Lionheart's investment strategy has a primary focus on credit and mezzanine capital investments in mortgages, junior notes and participations, preferred equity, mezzanine debt, and other real estate-related debt and debt-like investments secured by or deriving value from real estate-related assets located in the United States. Lionheart's strategy for the Funds and AIP Clients is to seek to create a portfolio that will access mezzanine opportunities with the objective of maximizing the return and yield available from the asset class. The Funds and AIP Clients may also provide senior subordinated debt in the form of loans, notes and other instruments which often have an equity participation component. In the event of any foreclosure on any collateral underlying or relating to an investment that results in the Funds or AIP Clients owning title to real property, any additional capital expenditure with respect to such real property (an "REO Investment") shall be funded outside the Funds or AIP Clients through a separate investment vehicle. The evaluation and decision-making with respect to investment opportunities for a Fund or AIP Client generally are made by an investment committee established for such Fund or AIP Client under its Governing Documents and composed of Lionheart designees and independent third parties.

When evaluating an investment opportunity and before investing on behalf of the Funds or AIP Clients, the Firm first determines whether the opportunity meets the investment objectives and strategy criteria of the Fund or AIP Client. Then, the Firm gathers and reviews market data, demographic information, real estate due diligence documents, and the financial information of any sponsor or borrower, to help Lionheart assess whether to make the investment on behalf of the Funds or AIP Clients.

Investing in real estate and real estate-related securities involves risk of loss that investors should be prepared to bear, including the risk associated with conflicts of interest and other matters disclosed elsewhere in this Brochure. The concentration of Client investments in real estate and the potential drawbacks associated with the lack of diversity is also a risk. The following is a summary of some of the material risks associated with the strategies the Firm employs on behalf of the Clients. This summary does not attempt to describe all of the risks associated with an investment in the Clients. Furthermore, there can be no assurance that Lionheart will achieve the objectives of the Clients.

Generally, the risks described below are increased the lower (i.e., the more “junior” or “subordinated”) an investment is in the capital structure of an investment or where investments are less liquid. This is particularly true for a mezzanine strategy, which generally invests in lower levels of the capital structure, more levered capital structures, distressed investments or privately negotiated investments. With respect to comparative position in the capital structure, the terms “lower”, “junior” or “subordinated” refer to the priority of the claim in the event of bankruptcy.

B. Risk Factors with respect to the Firm’s Investment Strategy

General Market and Credit Risks of Debt Securities. Debt portfolios are subject to credit and interest rate risks. “Credit risk” refers to the potential that an issuer or obligor will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer or obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities or loans which are rated by rating agencies are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments may also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Illiquid and Long-Term Investments. An investment may have a contractual return that is not paid entirely in cash, but rather partially or wholly in-kind or as an accreting liquidation preference, thus lengthening the time before cash is received and increasing the Clients’ risk exposure to the portfolio company. While Lionheart intends to achieve a targeted return for a given investment over time, other factors such as overall economic conditions, the competitive environment and the availability of potential purchasers or capital for the refinancing of the securities, may shorten or lengthen holding periods and some investments may take longer than initially planned from the initial investment date to achieve a realization. It is anticipated that there will not be a public market for a substantial portion of the securities held by the Clients. Therefore, if Lionheart determines or is required to liquidate all or a portion of the Clients’ portfolio positions quickly, the Clients may realize significantly less than the value at which their investments were previously recorded.

Risks of Making or Acquiring Real Estate Loans. The investment strategy of the Clients involves originating and/or acquiring loans secured by real estate assets in transition, including (i) in connection with the acquisition, new construction, property conversion or renovation of real property; (ii) properties requiring lease up or improved management; (iii) land entitled for development; (iv) assets held for sale; and (v)

distressed assets, which in each case are expected to be secured by first mortgages and/or UCC pledges of controlling interests and are collateralized by office, retail, residential, hospitality, and/or industrial properties (each an “Investment”). However, in pursuing such a strategy, the Clients may participate in the origination or acquisition of direct or indirect interests in real estate loans that at the time of their acquisition or thereafter may be non-performing for a wide variety of reasons. Such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down or the principal of such loan and/or purchasing senior loans. Further, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. 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. It is possible that Lionheart may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Client. The foreclosure process will vary from jurisdiction to jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan, including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy or its equivalent, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Commercial real estate loans are generally not insured or guaranteed by any person or entity, governmental or otherwise. If a default occurs, recourse generally may be had only against the specific properties and other assets that have been pledged to secure the loan. Consequently, payment prior to maturity is dependent primarily on the sufficiency of the net operating income of the properties that directly or indirectly secure the loan. Payment at maturity is primarily dependent upon the market value of the properties that directly or indirectly secure the loan and the borrower’s ability to sell or refinance the properties that directly or indirectly secure the loan. Although the commercial real estate loans generally are non-recourse in nature, certain such loans contain non-recourse carveouts for liabilities such as those arising as a result of fraud by the borrower, certain voluntary insolvency proceedings or other matters. However, certain commercial real estate loans either do not contain non-recourse carveouts or contain material limitations to non-recourse carveouts. Often these obligations are guaranteed by an affiliate of the related borrower, although liability under any such guaranty may be capped or otherwise limited in amount or scope. Furthermore, certain guarantors may be foreign entities or individuals which, while subject to the domestic governing law provisions in the guaranty and related mortgage loan documents, could nevertheless require enforcement of any judgment in relation to a guaranty in a foreign jurisdiction, which could, in turn, cause a significant time delay or result in the inability to enforce the guaranty under foreign law. Additionally, the guarantor’s net worth and liquidity may be less (and in some cases, materially less) than amounts due under the related mortgage loan or the guarantor’s sole asset may be its interest in the related borrower. Certain commercial real estate loans may have the benefit of a general payment guaranty of a portion of the indebtedness under the commercial real estate loan. In all cases, however, commercial real estate loans should be considered to be non-recourse obligations and no party has made any representation or warranty as to the obligation or ability of any borrower or guarantor to pay any deficiencies between any foreclosure proceeds and the commercial real estate loan indebtedness.

Below-Investment Grade Instruments. The below-investment-grade securities, loans and other assets in which the Clients invest are considered to be speculative and involve a high degree of financial risk due to the nature of their issuers’ and obligors’ leveraged capital structures. Such instruments are also commonly known as “junk bonds.” These investments may be (1) unsecured and subordinated to substantial

amounts of senior debt (all or a significant portion of which may be secured), (2) may not be protected by financial covenants or limitations on additional debt, (3) may have limited liquidity and (4) may not be rated by a credit rating agency. These instruments are regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Because investment in below-investment-grade instruments involves greater investment risk, achievement of the Clients' investment objective will be more dependent on Lionheart's analysis than would be the case if the Clients were investing in higher-quality, investment grade instruments. In addition, below-investment-grade instruments in leveraged capital structures may be more susceptible to real or perceived adverse economic and issuer-specific developments than investment-grade instruments. Moreover, the secondary trading market for lower quality instruments is generally more volatile and may be less liquid than the market for investment grade securities. This potential lack of liquidity may make it more difficult to accurately value certain portfolio investments. Lionheart intends to monitor portfolio company performance; however, it is primarily the responsibility of a portfolio company's management to operate the portfolio company on a day-to-day basis, and there is no assurance that management will perform in accordance with Lionheart's or a Clients' expectations. Therefore, there can be no assurance that the investments will be able to generate returns for the Clients or that the returns will be commensurate with the risks of investing. It is possible that the Clients will incur losses up to a complete loss of capital.

Multi-sector Investment Strategy Risks. The Clients' current strategy involves originating and/or acquiring debt instruments across a variety of real estate product-types in a variety of geographic locations. Accordingly, the Clients will depend on Lionheart being able to maintain expertise, relationships and market knowledge across a broad range of product-types and geographic regions, and will be subject to the market conditions affecting each such product-type in various markets, including such factors as the local legal and regulatory environment, economic climate, business layoffs, industry slowdowns, changing demographics, and supply and demand issues affecting each such market. This multi-sector approach could require more management time, staff support and expense than would be experienced with a company whose focus is dedicated to a greater extent on a single product-type in fewer jurisdictions than is contemplated by the Clients.

Leverage. The Clients have the power to borrow funds and may incur indebtedness in connection with its investment program and may execute corresponding guarantees.

The Clients' ability to obtain the leverage necessary on attractive terms depends upon many factors, including market conditions and the financial performance of the Clients' portfolio of investments. The failure to obtain leverage at the contemplated advance rates, pricing and other terms could have a material adverse effect on the Clients. Leverage creates an opportunity for increased returns, but at the same time creates risks and greater potential for loss. There can be no assurance that the Clients' use of leverage will prove to be beneficial. Moreover, there can be no assurance that the Clients will be able to meet their debt service obligations and, to the extent that it cannot, the Clients risk the loss of some or all (if cross-collateralized or subject to recourse guarantees) of their investments or a financial loss if the Clients need to liquidate investments at a commercially inopportune time. The Clients anticipate that only a small portion of the principal of any indebtedness secured by their Investments, if any, will be repaid prior to its maturity. It is possible that the Clients may not have funds sufficient to repay such indebtedness at maturity and it may be necessary for the Clients to refinance indebtedness through additional debt financing. If a Client is unable to refinance this indebtedness on acceptable terms, then such Client may be forced to dispose of their assets upon disadvantageous terms, which could result in losses to such Client and adversely affect the returns and the amount of cash available for distribution to members. If prevailing interest rates or other factors result in higher interest rates at a time when the Clients must refinance such indebtedness, the Clients' interest expense would increase, which would adversely affect the Clients' results of operations and their ability to pay expected distributions to members. Further, if an

Investment secures payment of indebtedness and the Clients are unable to meet debt payments, the asset could be foreclosed upon by, or otherwise transferred to, the lender with a consequent loss of income and asset value to the Clients.

Availability of Suitable Investments; Competition. The identification of attractive investment opportunities is difficult and highly uncertain. There can be no assurance that Lionheart will be able to invest the Clients' capital fully or that suitable investment opportunities will be identified. Lionheart often seeks to invest in companies with relatively short operating histories and lower revenues or companies that have undergone leveraged buyouts or recapitalizations. The success of the Clients' portfolios will depend on the ability of Lionheart to originate, recommend, structure, identify and consummate suitable investments in a highly competitive environment, to improve the operating performance of portfolio companies, and to dispose of investments at a profit. Lionheart competes with the public and private debt and equity markets and with other investors, including other asset management firms, mezzanine funds, private equity funds, hedge funds, direct investment firms, business development companies and merchant banks for investment opportunities.

Business and Regulatory Risks. Legal, tax and regulatory changes in the U.S. and outside the U.S. could occur and adversely affect the Clients. The regulatory environment for private investment vehicles is evolving, and changes in such regulation may adversely affect the value of investments held by the Clients. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Legal, tax, and regulatory changes, as well as judicial decisions, could adversely affect the implementation of the Clients' investment strategy. The effect of any future regulatory change on the Clients could be substantial and adverse. Alternative rules or legislation regulating the Clients or Lionheart may be adopted, and the possible scope of any rules or legislation is unknown. There can be no assurances that the Clients or Lionheart will not in the future be subject to regulatory review or discipline. The effects of any regulatory changes or developments on the Clients may affect the manner in which it is managed and may be substantial and adverse.

Cybersecurity Risk. In addition to the risks described above that primarily relate to the value of investments, there are various operational, systems, information security and related risks involved in investing, including but not limited to "cybersecurity" risk. Cybersecurity attacks include electronic and non-electronic attacks that include but are not limited to gaining unauthorized access to digital systems to obtain client and financial information, compromising the integrity of systems and client data (e.g., misappropriation of assets or sensitive information), or causing operational disruption through taking systems off-line (e.g., denial of service attacks). As the use of technology has become more prevalent, Lionheart and the Clients Lionheart manages have become potentially more susceptible to operational risks through cybersecurity attacks. These attacks in turn could cause Lionheart and the Clients to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. Similar adverse consequences could result from cybersecurity incidents affecting issuers of securities in which Lionheart invests, counterparties with which Lionheart engages in transactions, third-party service providers (e.g., a Client's custodian), governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers and other financial institutions and other parties. While cybersecurity risk management systems and business continuity plans have been developed and are designed to reduce the risks associated with these attacks, there are inherent limitations in any cybersecurity risk management system or business continuity plan, including the possibility that certain risks have not been identified. Accordingly, there is no guarantee that such efforts will succeed, especially since Lionheart does not directly control the cybersecurity systems of issuers or third-party service providers.

Geopolitical Risk. Wars and other international conflicts, such as the Israeli-Palestinian conflict and the ongoing military conflict between Russia and Ukraine, have caused disruption to global financial systems, trade and transport, among other consequences. In response, multiple other countries have put in place sanctions and other severe restrictions or prohibitions on certain of the countries involved, as well as related individuals and businesses. However, the ultimate impact of these conflicts and their effect on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the Clients or any particular industry, business or investee country and the duration and severity of those effects, is impossible to predict. These conflicts may have a significant adverse impact and result in significant losses to the Clients. This impact may include reductions in revenue and growth, unexpected operational losses and liabilities and reductions in the availability of capital. It may also limit the ability of a Client to source, diligence and execute new investments and to manage, finance and exit investments in the future. Developing and further governmental actions (military or otherwise) may cause additional disruption and constrain or alter existing financial, legal and regulatory frameworks and systems in ways that are adverse to the investment strategy which any Client intends to pursue, all of which could adversely affect a Client's ability to fulfill its investment objectives.

Outbreaks of Infectious or Contagious Diseases. During 2020, the World Health Organization declared a pandemic with respect to an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"). The outbreak of COVID-19 resulted in numerous deaths, adversely impacted global commercial activity, and contributed to significant volatility in global equity and debt markets. Many countries reacted by instituting quarantines; prohibitions on travel; and the closure of offices, businesses, schools, retail stores, and other public venues. Private businesses also implemented similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, have created significant disruption in supply chains and economic activity and had a particularly adverse impact on transportation, hospitality, tourism, entertainment, and other industries, which continues as of the date of this Brochure. The long-term impact of COVID-19 on global, regional, or local economies remain uncertain and difficult to assess.

Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola or other existing or new pandemic or epidemic diseases, or the threat thereof, could have a significant adverse impact on the Clients and their investments and could adversely affect the Firm's ability to fulfill their investment objectives.

The extent of the impact of any public health emergency on the Clients' and their investments' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency; the extent of any related travel advisories and restrictions implemented; the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence, and levels of economic activity; and the extent of its disruption to important global, regional and local supply chains, and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact the value and performance of the Clients' investments; the Firm's ability to source, manage, and divest investments; and the Firm's ability to achieve its investment objectives, all of which could result in significant losses to the Clients. In addition, the operations of the Firm may be significantly impacted, or even temporarily halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings, and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel.

C. Risks in Recommending a Particular Type of Security

Debt Investments. Investments in debt are associated with a number of risks. Debt which is performing at the time of acquisition may subsequently become sub-performing and/or non-performing. In addition to the risk of borrower default, there is a risk that underlying collateral is mismanaged or otherwise may have declined in value and/or may in the future decline or further decline in value.

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 mortgage obligations. Moreover, because Lionheart, in certain situations involving the exercise of remedies or rights under loan documents on behalf of a Client, 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 Lionheart 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 Lionheart on behalf of 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 such Client. As a lender, a Client may also be subject to penalties for violations of state usury limitations, which may result in liability to such Client, including the assessment of penalties.

Investments in loans may involve workout negotiations, restructuring, the possibility of foreclosure and/or a discounted mortgage payoff. However, even if a restructuring were successful, there are risks of a substantial reduction in the interest rate and/or a substantial write-down of a loan's principal which result in adverse tax consequences. Furthermore, the foreclosure process, which may not be led by Lionheart, varies from jurisdiction to jurisdiction and can be lengthy and expensive, and under certain circumstances or in certain states can result in the inability to obtain a deficiency judgment or enforce a personal guaranty.

Subordination of Investments. The Clients may invest in subordinated loans, create or invest in junior notes and create or invest in structurally subordinated mezzanine loans and other subordinated real estate debt-like instruments (including possibly preferred equity interests following the Clients' exercise of remedies with respect to non-performing loans). These Investments will be subordinated to the senior obligations of the property or issuer, either contractually, inherently due to the nature of equity investments, or both. Greater credit risks are usually attached to these subordinated Investments than to a borrower's first mortgage or other senior obligations. In addition, these securities may not be protected by financial or other covenants and may have limited liquidity. Adverse changes in the borrower's financial condition and/or in general economic conditions may impair the ability of the borrower to make payments on the subordinated securities and cause them to default more quickly with respect to such securities than with respect to the borrower's senior obligations. In most cases, the Clients' management of their Investments and their remedies with respect thereto, including the ability to foreclose on any collateral securing such Investments, will be subject to the rights of the more senior lenders and contractual inter-creditor provisions.

Investments in Junior or Subordinate Loans. In advising the Clients, Lionheart may invest in loans that may not always be protected by financial covenants or limitations on additional indebtedness, and/or may be subordinate to other debt of the borrower. In the event of a default, such loans will only be satisfied after senior debt is paid in full. Inter-creditor arrangements that may exist will also limit Lionheart's ability to amend loan documents, assign the loan(s), accept prepayments, exercise its remedies (through "standstill periods"), and control decisions made in a borrower's bankruptcy proceedings. Accordingly, Lionheart may not be able to take steps necessary to protect Clients' investments in a timely manner or at all and this may result in a loss of the investment.

In cases where one or more subordinate liens exist or are imposed on a mortgaged property, or the borrower incurs other indebtedness, Clients holding such loans will be subject to additional risks, including, without limitation, the following: the risk that necessary maintenance of the mortgaged property could be deferred to allow the borrower to pay the required debt service on the subordinate financing, and as a result, the value of the underlying property may decline; the risk that the borrower may have a greater incentive to repay the subordinate or unsecured indebtedness first; the risk that it may be more difficult for the borrower to refinance the mortgage loan or to sell the mortgaged property for purposes of making any balloon payment upon maturity of the mortgage loan; and the risk that, in the event the holder of the subordinated debt has filed for bankruptcy or been placed in involuntary receivership, foreclosing on the mortgaged property could be delayed, which will result in additional costs and administrative burdens associated with foreclosure or bankruptcy proceeding, or related litigation.

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. Mezzanine loans involve a higher degree of risk than senior mortgage loans because the former are generally associated with 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 the event of a borrower default, mezzanine loans will only be satisfied after senior debt is paid in full and in the event of a bankruptcy, the mezzanine loan holder may not have full recourse to the underlying assets, or the assets may not be adequate to satisfy obligations of the mezzanine loan.

Additionally, because mezzanine debt is secured by the obligor's equity interest in related borrowers, such financing effectively reduces the obligor's economic stake in the underlying mortgaged property. The existence of mezzanine debt may reduce cash flow related to the mortgaged property after the payment of debt service, and could increase the likelihood that the owner of a borrower will permit the value or income producing potential of a mortgaged property to fall. This in turn may increase the risk that a borrower will default on the loan secured by a mortgaged property whose value or income is relatively weak. Generally, upon the default of mezzanine debt, the holder of such debt would be entitled to foreclose upon the equity in the related mortgagor that had been pledged to secure payment on the debt. Such transfer of equity however, could cause the obligor to file for bankruptcy, which could negatively affect the operation of the underlying property as well as the borrower's ability to make timely payments on the related loan.

CLO Subordinated Notes Risks. Certain loans owned by the Clients may be packaged in one or more special purpose vehicles in order to issue collateralized loan obligations ("CLOs") to third parties. In such instances the Clients, Lionheart or an affiliate may act as the collateral administrator and be responsible for packaging loans and issuing CLOs. In such a case, the Clients' interest in the underlying loans may be subordinated to payments of applicable CLOs. This CLO structure is intended to leverage the Clients' underlying investments by providing additional capital for underlying loan originations. This CLO structure creates an opportunity for increased returns, but at the same time creates risks and greater potential for loss. There can be no assurance that the Clients' use of CLO structures will prove to be beneficial. Moreover, there can be no assurance that underlying special purpose vehicles will be able to meet their CLO payment obligations and, to the extent that they cannot, the Clients risk the loss of some or all of their investments in the underlying loans. In addition, a CLO structure may create additional risks arising from claims by CLO note holders against the Clients and/or Lionheart in connection with organizing and administering a CLO structure.

The Clients may also invest in subordinated notes issued by a CLO, which are junior in priority of payment and are subject to certain payment restrictions generally set forth in an indenture governing the notes. In

addition, they generally have only limited voting rights and generally do not benefit from any creditors' rights or ability to exercise remedies under the indenture governing the notes. The subordinated notes are not guaranteed by another party. The Clients cannot assure the members that distributions on the assets held by a CLO will be sufficient to make any distributions or that the yield on the subordinated notes will meet the Clients' expectations.

The subordinated notes are unsecured and rank behind all of the secured creditors, known or unknown, of the issuer, including the holders of the secured notes it has issued. Consequently, to the extent that the value of the issuer's portfolio of loan investments has been reduced as a result of conditions in the credit markets, defaulted loans, capital gains and losses on the underlying assets, prepayment or changes in interest rates, the value of the subordinated notes realized at their redemption could be reduced. Accordingly, the subordinated notes may not be paid in full and may be subject to up to 100% loss.

Credit Ratings. Credit ratings of borrowers or debt securities which may constitute Investments or components of Investments represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, they may not fully reflect the true risks of an Investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. In addition, many of the Investments are not expected to be assigned public ratings by the rating agencies.

Prepayments. The senior mortgage loans, junior notes and mezzanine loans may be subject to prepayment, which is affected by a number of factors. If prevailing rates for similar loans fall below the interest rates on such loans, the prepayment pace and the number of potential prepayments would generally be expected to increase. Conversely, if prevailing interest rates for similar loans rise above the interest rates on such loans, the prepayment pace and the number of potential prepayments would generally be expected to decrease. Certain of the loans may have lockout periods and/or defeasance periods during which prepayment is prohibited or require prepayment premiums or defeasance features to be paid upon a prepayment. Prepayments on the loans may also be affected by the value of the related collateral asset, the borrower's equity in such asset, the financial circumstances of the borrower, fluctuations in the business operated by the borrower on the collateral asset, competition, general economic conditions and other factors. However, there can be no assurance that the loans will be prepaid at any particular rate.

Possible Lack of Diversification. While the terms of the Clients contemplate investment in a manner that is geographically and property-type diverse, the Clients may participate in a limited number of Investments and there can be no assurances concerning the diversification of the Clients' assets either by geographic region or asset type. This could lead to increased risk as a result of the Clients having an unintended long-term Investment and reduced diversification. A limited degree of diversification increases risk because, as a consequence, the aggregate return of the Clients may be substantially adversely affected by the unfavorable performance of even a single Investment.

General Risks Relating to the Clients

- The Clients could be adversely affected by poor market conditions if properties are concentrated based on property type, geography, related borrower or other factors.
- The Clients are subject to risks associated with a multi-sector investment strategy.

- The Clients' investments may be related to multifamily, office, retail, hospitality, and industrial properties, each of which subjects the Clients to particular risks.
- The Clients' due diligence may not reveal all of the factors affecting an investment and may not reveal weaknesses in prospective investments.
- The Clients may not have control over their investments.
- The Clients' investments may be exposed to risks related to derivative contracts.
- The Clients may make investments with projected returns predicated upon improvement in credit spreads.
- The Clients may be subject to risks related to the prepayment of senior mortgage loans, junior notes and mezzanine loans.
- It may be difficult for the Clients to dispose of their investments.
- The Clients may engage in development, redevelopment and construction activities in the case of troubled investments, which could affect their operating results and create additional risks.
- The Clients may incur risks upon disposition of investments.
- The Clients may not be diversified in their investments.
- Lionheart may be required to make investment decisions on an expedited basis.
- The Clients may be exposed to lender liability risks including equitable subordination.
- There are increased risks involved with construction lending activities.
- The Clients could potentially be subject to environmental and other liability.
- Investment in the Clients may result in adverse tax consequences to different types of investors, and any prospective limited partner should consult its tax advisors in connection with an investment in the Clients.
- The liability of Lionheart is limited under the Governing Documents, and the Clients have agreed to indemnify Lionheart against certain liabilities.
- Due to restrictions on transfer and withdrawal, an investment in the Clients will be illiquid.
- Investors in the Clients may suffer adverse consequences if they default in making capital contributions.
- The Clients expect to call capital over time and the Clients may suffer losses if investors fail to fund their capital commitments.
- Some of the Clients' investments may be required to be held longer than the term of the Clients.
- Uninsured losses or a loss in excess of insured limits could adversely affect the Clients' financial condition.
- Investors may incur tax liabilities prior to receiving distributions.

Commercial and General Real Estate Considerations. 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 real estate properties, and correspondingly the performance of related real estate debt, are also typically subject to the effects of (a) the ability of tenants to make lease payments, (b) 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, (c) interest rate levels and the availability of credit to refinance such loans at or prior to maturity, (d) compliance with regulatory requirements and applicable laws, including rent control laws and environmental controls and regulations, and (e) 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 the protection of the bankruptcy laws which can result in termination of lease contracts.

Generally, real estate historically has experienced significant fluctuations and cycles in value that may result in reductions in the value of real estate-related investments. For example, real estate investments are relatively illiquid and, therefore, will tend to limit the ability to vary the Clients' portfolio promptly in response to changes in economic or other conditions. The marketability and value of the Clients' Investments depends on many factors beyond the control of Lionheart, and no assurances can be given that the fair-market value of any investments held by the Clients will not decrease after acquisition or that the Clients will recognize full value for any investment that the Clients are required to sell for liquidity or any other reason. The ultimate performance of the Clients' investments is subject to the varying degrees of risk generally incident to the financing, ownership, development, re-development and operation of the underlying real property. The ultimate value of the Clients' investment in each underlying real property investment depends upon the underlying borrower's ability to operate the real property in a manner sufficient to maintain or increase revenues in excess of operating expenses and debt service or, in the case of all properties, the ability of any lessees to make rental payments.

Real estate investments are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, terrorist attacks, social unrest and civil disturbances, which may result in uninsured losses;
- adverse changes in national and local economic and market condition including, for example, interest rates and energy prices;
- changes in governmental laws and regulations (including their interpretations), fiscal policies (and in the availability, cost and terms of mortgage funds), environmental legislation and zoning ordinances and the related costs of compliance;
- increases in interest rates, real estate tax rates and other operating expenses;
- changes in laws that increase operating expenses or limit rents that may be charged;

- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- the potential for uninsured or underinsured property losses;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- the financial condition of tenants, buyers and sellers of properties and, in the case of commercial properties, success of tenant businesses; and
- competition from other properties offering the same or similar services.

The factors above could materially and adversely affect the results of the operations, financial condition, collateral value, liquidity and business of the Clients and, consequently, returns to the Clients.

In addition, the net operating income, cash flow and property value of the mortgaged properties may be adversely affected by any one or more of the following factors: the age, design and construction quality of the property; perceptions regarding the safety, convenience and attractiveness of the property; the proximity and attractiveness of competing properties; the adequacy and effectiveness of the property's operations, management and maintenance; increases in operating expenses (including but not limited to insurance premiums) at the property and in relation to competing properties; an increase in the capital expenditures needed to maintain the property or make improvements; the dependence upon a single tenant, or a concentration of tenants in a particular business or industry; a decline in the financial condition of a major tenant; an increase in vacancy rates; and a decline in rental rates as leases are renewed or entered into with new tenants.

Real Estate Market Conditions. An economic downturn could cause the underlying properties relating to the Clients' investments to lose tenants or otherwise decline in value, and could impair the Clients' ability to borrow money to make investments or refinance existing debt.

The Clients' operations and performance depend on general economic conditions, including the health of the consumer. A financial downturn could result in a decline in consumer spending, credit tightening and high unemployment. Such an economic downturn could have an adverse effect on the businesses of many of the Clients' borrowers' tenants. The Clients' borrowers may experience higher vacancy rates as well as delays in re-leasing vacant space.

An economic downturn could also negatively impact the equity securities and global credit markets and impair the Clients' ability to borrow money on favorable terms or at all. Furthermore, if the Clients are unable to borrow money, then the Clients may need to sell some of their assets at unfavorable prices in order to pay their loans. To the extent that the availability of credit is limited, it could also adversely impact the Clients' notes receivable as counterparties may not be able to obtain the financing required to repay the loans upon maturity.

In the event that there are adverse economic conditions in the real estate market and demand for rental properties decreases, the Clients may need to increase tenant improvement allowances or concessions to tenants in order to accommodate increased requests for renovations, build-to-suit remodeling and other improvements or provide additional services to tenants, all of which could negatively affect the cash flow to the Clients.

Interest Rate and Hedging Risks. The Clients may incur indebtedness that may bear interest at variable interest rates. Variable interest rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect the Clients (for example, borrowing costs may increase but there may not be a corollary increase in tenant rent payments to the Clients and/or their subsidiaries). The Clients' performance may be adversely affected by a fluctuation in interest rates if it utilizes variable rate mortgage financing and fails to employ an effective hedging strategy to mitigate such risks, including engaging in interest rate swaps, caps, floors and other interest rate contracts, and buying and selling interest rate futures and options on such futures. Should the Clients elect to borrow at a variable interest rate and to employ such a hedging strategy, the use of these instruments to hedge a portfolio carries certain risks, including the risks that losses on a hedge position will reduce the Clients' earnings and funds available for distribution to members and that such losses may exceed the amount invested in such instruments. Even if used, hedges may not perform their intended purpose of minimizing and offsetting losses on an investment. In addition, to the extent that the Clients conduct such activities through a subsidiary that elects to be treated as a REIT (as defined below), it will be subject to the limitations on such activities applicable to REITs. The Clients may also be exposed to the risk that the counterparties with which the Clients trade may cease making markets and quoting prices in such instruments, which may render the Clients unable to enter into an offsetting transaction with respect to an open position, or the risk that a counterparty may default on its obligations.

Inflation and Recession Risk. Inflation has increased substantially over recent years and could continue to accelerate. Economists generally believe that this recent spike in the inflation rate has been driven by a number of factors including (among others) global supply chain issues, the increased cost of oil and other commodities, changes in consumer buying patterns during the COVID-19 pandemic and the massive influx of dollars into the U.S. economy as a result of governmental rescue and stimulus programs implemented since the beginning of the COVID-19 pandemic. The Russia-Ukraine Conflict, which has resulted in increased energy prices and sanctions disrupting the normal patterns of global trade, is likely to exacerbate inflationary conditions. To address recent high inflation rates, on multiple occasions throughout 2022 and the beginning of 2023, the Federal Reserve announced increases to its benchmark interest rate and may approve additional rate increases, which increases may be significant and which are intended to spell the end for the foreseeable future of what had been a prolonged period of low interest rates. Although the increase in the domestic inflation rate, and the resulting increase in the federal effective funds rate, could advantage the Clients by offering the potential for the Clients to receive higher returns on Clients' debt investments, it could also adversely impact the Clients and their Investments in a number of ways including by increasing competition for investments, or increasing issuer default risk. In addition, rising interest rates may hinder such borrower's ability to refinance, giving the borrower less incentive to cure delinquencies and avoid foreclosure. The long-term effects of inflation on the general economy and on any individual borrower are unclear, and in certain cases, rising inflation may affect a borrower's ability to repay its loan, thereby reducing the amounts received by the holders of the notes with respect to such loan.

Since July of 2023, the Federal Reserve has held interest rates steady at the highest level since 2001 as U.S. inflation has begun to trend downward. Many observers believe, as the Federal Reserve and other central bank authorities globally increased interest rates to address inflation throughout 2022 and the beginning of 2023, together with ongoing global supply chain issues and other factors, that the growth of U.S. and other Western economies may contract over time leading to a recession in the US and abroad. Other observers have been more hopeful regarding the ability of the Federal Reserve to help steer the economy to a "soft landing" in connection with bringing inflation down without triggering recession. It is impossible to predict whether a recession will actually occur and, if it does occur, the length and severity of any such recession. If a moderate to severe recession were to occur in the US and in other Western countries for a prolonged period of time, it would be expected to adversely affect the markets in which

the Clients operate and could materially and adversely the performance of the Clients' Investments and the prospects and returns of the Clients.

Financial Institution Risk; Distress Events. An investment in the Clients is subject to the risk that one of the Clients' banks, brokers, hedging counterparties, lenders or other custodians of some or all of the Clients' assets (each, a "Financial Institution") fails to perform its obligations or experiences insolvency, closure, receivership or other financial distress or difficulty, similar to that experienced by Silicon Valley Bank and Signature Bank in March 2023 (each, a "Distress Event"). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance or accounting irregularities.

In the event a Financial Institution experiences a Distress Event, Lionheart and/or the Clients may not be able to access deposits, borrowing facilities or other services for an extended period of time or ever. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the FDIC, in the case of banks, or the Securities Investor Protection Corporation ("SIPC"), in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose increased risk of loss. Although in recent years governmental intervention has resulted in additional protections for depositors, there can be no assurance that governmental intervention will be successful or avoid the risk of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of Lionheart to manage the Clients and their investments, and on the ability of Lionheart and the Clients to maintain operations, which in each case could result in significant losses and unconsummated investment acquisitions and dispositions. Such losses have the potential to include requiring the Clients to pay fees and expenses in the event the Clients are not able to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of investors to make capital contributions or otherwise), as well the inability of the Clients to acquire or dispose of investments at prices that Lionheart believes reflect the fair value of such investments. Although Lionheart expects to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, there can be no assurance that such remedies will be successful or avoid losses or delays.

Although Lionheart seeks to do business with third-party banks and custodians that it believes are creditworthy and capable of fulfilling their respective obligations to the Clients, investment managers are under no obligation to use a minimum number of third-party banks or custodians with respect to the Clients, or to maintain account balances at or below the relevant insured amounts.

Investment Opportunities. Lionheart and its affiliates engage in a broad spectrum of real estate and related investment activities that are independent from, and may from time to time conflict with, the interests of the Clients. Certain affiliates of Lionheart may engage in transactions with, develop, provide services to, invest in, advise, sponsor and/or act as investment manager to real estate companies, real estate projects, investment vehicles and other persons or entities. In addition, affiliates of Lionheart may provide services to properties securing or otherwise relating to the Clients' investments. In the future, Lionheart and/or its affiliates may sponsor, advise, act as investment manager to, engage in transactions with, provide services to or invest in other investment vehicles that may have similar structures and investment objectives and policies to those of the Clients and that may compete with the Clients for investment opportunities and/or co-invest with the Clients in certain transactions.

Other Investments in Real Estate. Affiliates of Lionheart have investments in, and provide development,

construction, management and related services to, real estate and real estate-related assets in which the Clients do not have an ownership interest. Certain conflicts of interest may result from such investments and activities. Affiliates of Lionheart may invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of the Clients for their own account own account and/or for the account of other vehicles under the management of the Firm. The interests of Lionheart and its affiliates in such investments may conflict with the interests of the Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Lionheart and its affiliates may invest in real estate and real estate-related assets that may be competitive with the Clients or the properties securing or otherwise relating to the Clients' investments. In addition, affiliates of the Firm may provide services to properties that compete with the properties securing or otherwise relating to the Clients' investments. To the extent that Lionheart or any of its affiliates invest in or provide services to competitive properties, such properties may impair the performance of the Clients' investments.

Management Team. Certain members of Lionheart's management team expect to have conflicts in allocating their time and services among the Clients and other ventures. Thus, while it is anticipated that these members will devote as much time to the Clients as Lionheart deems appropriate, certain members may have to devote a substantial amount of time to matters other than the Clients, some of which may conflict with the interests of the Clients.

Independent Business Operations. Lionheart is indirectly owned in part by the principal owners of Fisher Brothers, a real estate development firm. Lionheart will be managed separately and independently from the existing business operations of Fisher Brothers. Although Lionheart intends to enter into services arrangements with certain Fisher Brothers-owned service providers, Lionheart will be an independent business operation and, accordingly, will not necessarily benefit from Fisher Brothers' existing operations and expertise. Fisher Brothers has entered into arrangements with Lionheart pursuant to which Fisher Brothers, on a monthly fee for services basis, will provide services to Lionheart including due diligence and human resources and information technology assistance as well as transaction execution assistance.

Affiliates of Lionheart (including various Fisher Brothers entities) reserve the right to invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of one or more Clients. The interests of Lionheart and its affiliates in such investments have the potential to conflict with the interests of the Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Affiliates may invest in real estate and real estate-related assets that may be competitive with one or more Clients or the properties securing or otherwise relating to the Clients' investments. In addition, affiliates of Lionheart are expected to provide services to properties that compete with the properties securing or otherwise relating to the Clients' investments. To the extent that Lionheart or any of its affiliates invest in or provide services to competitive properties, such properties have the potential to impair the performance of the Clients' investments.

Indemnification; Exculpation. A Client's Governing Documents generally contain broad exculpation and indemnification provisions. For example, a Client's Governing Documents typically will limit the circumstances under which a general partner, Lionheart, its affiliates and certain associated persons of the foregoing can be held liable to such Fund and/or its limited partners. As a result, limited partners have a more limited right of action in certain cases than they would have in the absence of such a limitation. The persons identified above generally will not be liable to a Fund or the limited partners except with respect to certain enumerated conduct set forth in the Governing Documents including gross negligence, willful misconduct or fraud. In addition, a Fund will indemnify the foregoing persons with respect to any losses or damages incurred in connection with their services to a Fund, except with respect to certain enumerated

conduct set forth in the Governing Documents including gross negligence, willful misconduct or fraud. Notwithstanding any such provisions in the Governing Documents of a Client, nothing therein is intended, nor will be construed or interpreted by Lionheart, as a waiver of any non-waivable federal fiduciary duty to the applicable Client under the Advisers Act.

D. Potential Conflicts of Interest.

Potential Conflicts of Interest. There may arise instances where the interests of Lionheart and/or its affiliates conflict with the interests of the Clients and/or its investors. Certain potential conflicts of interest are discussed below. Lionheart will endeavor to resolve conflicts of interest in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

Allocation of Investment Opportunities. Lionheart and its affiliates currently manage, and will manage in the future, a broad investment platform encompassing commingled funds, separate accounts and other similar investment vehicles, including one or more vehicles in which Lionheart or its affiliates participate, some of which have, or may have, investments that do or will in the future compete with the investment objectives of one or more existing Clients. Certain inherent conflicts of interest arise from the fact that: (i) Lionheart provides investment management services to more than one investment vehicle and accounts in addition to the Clients; and (ii) the investment vehicles and accounts may have one or more overlapping investment strategies.

For example, the investment strategies, fee arrangements and other circumstances of each investment vehicle or account that Lionheart currently sponsors and manages, or will sponsor and manage in the future, will vary, and it is possible that certain accounts will compensate Lionheart and its affiliates in ways that are preferential to Lionheart and/or its team members (including, for example, with respect to carried interest or similar promote compensation) or Lionheart and/or its team members may have proprietary capital interests in certain accounts but not others, which would present conflicts of interest when determining the manner in which investment opportunities are allocated among investment vehicles and accounts. While Lionheart will seek to manage such potential conflicts of interest in good faith, there may be situations in which the interests of a particular client of Lionheart, with respect to a particular investment or other matter, conflict with the interests of the Clients.

Other Obligations of Investment Professionals. Lionheart's investment professionals serve as officers, directors or principals of other entities, including affiliates of Lionheart and with respect to more than one Client managed by Lionheart. Accordingly, such individuals may have obligations to investors or stakeholders in those other entities, the fulfillment of which may require such individuals to devote time to services for other entities, which could interfere with the time available to provide services to a particular Client. Although Lionheart's professional staff will devote as much time to the management of the Clients as appropriate to enable such investment manager to perform its duties in accordance with the governing documents of the Clients, those investment professionals with responsibilities to other entities may have conflicts in allocating their time and services among the Clients, on the one hand, and such other commitments, on the other hand.

Services by Affiliates; Transactions with Affiliates. In the event of any foreclosure on (or similar action with regard to) any collateral underlying or relating to an investment that results in a Client (or any of their respective affiliates) or any alternative investment vehicle of the Clients owning title to real property or equity interests in an entity that owns title to real property, Lionheart reserves the right to engage one or more its affiliates to provide real estate related services subject to any requisite approvals of investment committees and associated fees set forth in the relevant Governing Documents. Any fees paid

to Lionheart and/or its affiliates for providing such services to the Clients will be borne by the Clients for the benefit of such service providers and not shared with the Clients (and will not offset any asset management fee or other fee applicable to the Client).

Lionheart and/or its affiliates may provide administration and related services to borrowers in exchange for fees paid directly by borrowers to such investment manager and/or its affiliates. Any fees paid to Lionheart and/or its affiliates by a borrower for providing such services to a borrower will be for the benefit of such service providers and not shared with the Clients or any members (and will not offset any asset management fee or other fee applicable to the Client).

Valuations. Generally, there will be no readily available market for a substantial number of the Clients' investments and, hence, most of the Clients' investments will be difficult to value. When estimating fair value, Lionheart will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. The process of valuing investments for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such investments and may differ from the prices at which such investments ultimately may be sold. The exercise of discretion in valuation by Lionheart may give rise to conflicts of interest.

Management Fees. In exchange for the provision of management and advisory services with respect to a Client and its investments, Lionheart will receive management fees from such Client in accordance with its Governing Documents. Such management fees will be calculated and charged on a basis that generally is not tied to the Clients' net asset value. As further described in each Client's Governing Documents, management fees typically will be calculated in part based on an amount equal to the aggregate capital contributions used to make or support Clients' investments, other than for those investments that have been realized or completely written off (such amount, "Invested Capital"). As a result, the amount of management fees generally will not correspond with fluctuations in the Clients' net asset value, and will not be increased to reflect appreciation in an investment's value or reduced in connection with depreciation in an investment's value, except in the case of investments completely written off. Lionheart maintains some discretion in determining the amount of Invested Capital upon which management fees are based. For example, and without limitation, Lionheart has the ability determine whether capital contributions have been made in support of an investment and thereby should be included in the amount of Invested Capital. Additionally, Lionheart has the ability to determine whether an investment has been completely written off and thereby whether to exclude capital contributions with respect to such an investment from the amount of Invested Capital. Such determinations would have an impact on the amount of management fees payable by the Clients to Lionheart. As such, Lionheart may have conflicts of interest when making such a determination and may specifically be incentivized to delay or avoid writing off an asset in order to receive additional management fees. "Completely written off" is not a defined term under legal or accounting principles, and any determination as to whether an investment should be completely written off is determined in the discretion of Lionheart and its view of the relevant facts and circumstances. Lionheart retains the discretion (and reserves the right) to make different determinations with respect to Invested Capital under seemingly similar circumstances that it considers reasonable. Lionheart also reserves the right to make such determinations regarding Invested Capital in consultation with its accounting, legal or tax advisors and/or in a manner that accords with its related valuation procedures. Accordingly, where an asset or investment is troubled or subject to ongoing distress, the management fee attributable to such asset will not necessarily be reduced unless Lionheart determines, in its discretion, that the investment should be completely written off. Because a determination that an asset should be completely written off affects the amount of management fees received by Lionheart, Lionheart is subject to potential conflicts of interest. While Lionheart maintains methodologies in its valuation policies and procedures intended to help determine when an asset has been completely written

off, there can be no assurances as to if and when particular assets are determined to be completely written off.

ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an investor's evaluation of Lionheart or the integrity of Lionheart's management. Lionheart has no information to report with respect to this Item.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status

Neither Lionheart nor any of its management persons are registered, or have an application pending to register, as broker-dealers or registered representatives of a broker-dealer.

B. CFTC Registration Status

Neither Lionheart 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. Industry Relationships Material to Advisory Business

Private Funds

Investors in LMCI must understand that LMCI was formed as a pooled investment vehicle to be managed by Lionheart, and that Lionheart does not intend to cause LMCI to terminate its investment management relationship with Lionheart absent Lionheart's liquidation or bankruptcy. However, Lionheart has a fiduciary duty to act in the best interest of LMCI. In addition, LMCI investors generally are not permitted to withdraw from LMCI prior to its dissolution.

Real Estate Firm

Although affiliated with Fisher Brothers, Lionheart is governed by a majority independent board of directors, operates independently of Fisher Brothers and conducts its investment advisory business separately from the business of Fisher Brothers. Fisher Brothers has entered into a Master Services Agreement with Lionheart pursuant to which Fisher Brothers, on a monthly fee for services basis, will provide services to Lionheart including origination, due diligence, financial analysis and structuring as well

as transaction execution assistance. The Master Services Agreement is effected on terms comparable to those that could be obtained in an arm's-length agreement between unrelated counterparties.

Lionheart does not intend to make any material investments in any properties owned or controlled by Fisher Brothers. Nonetheless, affiliates of Lionheart (including various Fisher Brothers entities) have investments in, and provide development, construction, management and related services to, real estate and real estate-related assets in which the Clients do not have an ownership interest. Certain conflicts of interest may result from such investments and activities. Affiliates of Lionheart may invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of the Clients for their own accounts and/or for the accounts of other vehicles under the management of Lionheart. The interests of Lionheart and its affiliates in such investments may conflict with the interests of the Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Affiliates may invest in real estate and real estate-related assets that may be competitive with the Clients or the properties securing or otherwise relating to the Clients' investments. In addition, affiliates of Lionheart may provide services to properties that compete with the properties securing or otherwise relating to the Clients' investments. To the extent that Lionheart or any of its affiliates invest in or provide services to competitive properties, such properties may impair the performance of the Clients' investments.

A related person of the Firm, Fisher Brothers Management Company LLC ("FBMC") is a real estate broker licensed in New York State. Lionheart receives services from FBMC relating to back office (including IT and human resources), development, construction and leasing and pays a quarterly fee to FBMC for such services. No fees are paid by any Clients to FBMC.

D. Material Conflicts of Interest Relating to Other Advisers

Lionheart does not recommend or select other investment advisers for the Clients.

ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

A. Code of Ethics

Lionheart has adopted a Code of Ethics (the "Code"), the fundamental principles of which are that: (i) the interests of the Clients must always come first; (ii) supervised persons of Lionheart must not take inappropriate advantage of their positions; and (iii) both actual and potential conflicts of interest must be identified and resolved in favor of the Client or, if appropriate, disclosed to them. Among other things, the Code:

- Requires employees to comply with applicable provisions of the federal securities laws;
- Requires approval before effecting certain purchases and sales of securities;
- Prohibits certain recommendations of purchases or sales to or for a Client;
- Requires employees to report personal securities transactions and accounts on at least a quarterly basis and securities holdings on commencement of employment and annually thereafter;
- Establishes rules relating to business-related gifts/entertainment, political contributions and outside business activities; and
- Provides for the imposition of certain sanctions against supervised persons who violate the Code.

A copy of the Code shall be provided to any investor or prospective investor upon request.

B. Securities in which the Firm or Related Persons have Financial Interest

Neither Lionheart nor any related person recommends to the Clients, or buys or sells for the Clients' portfolios, securities in which Lionheart or a related person has a material financial interest.

C. Securities in which the Firm or Related Persons Invest

Neither Lionheart nor any related person invests in the same or related securities that Lionheart or a related person recommends to the Clients.

D. Securities which the Firm or Related Persons Recommend to Clients

Neither Lionheart nor any related person recommends securities to the Clients, or buys or sells securities for the Clients' portfolios, at or about the same time that Lionheart or a related person buys or sells the same securities for its own or a related person's own account.

ITEM 12 – BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

Due to the nature of its strategy, Lionheart does not generally trade in public securities on behalf of the Clients and, therefore, does not generally utilize broker-dealers for transactions.

B. Aggregated or “Bunched” Orders

In the context of Lionheart's business, the aggregation of the purchase or sale of securities for multiple Client accounts is generally not relevant, and as such, this item is not applicable.

ITEM 13 – REVIEW OF ACCOUNTS

A. Review of Client Accounts

Lionheart's investment professionals, including the Firm's Chief Compliance Officer and Managing Directors, review the portfolios of the Funds and AIP Clients on a regular and ongoing basis, specifically regarding the nature of the portfolios' construction and for adherence to the objectives and restrictions set forth in the Funds' and AIP Clients' Governing Documents.

B. Factors that May Trigger a Review of Client Accounts

Funds' and AIP Clients' portfolios are reviewed on a periodic basis in accordance with the Governing Documents of such Funds and AIP Clients.

C. Content and Frequency of Reports

Lionheart provides investors with periodic, written reports in accordance with the terms of the Funds' and AIP Client' Governing Documents. Reports for LMCI are typically provided to investors on a quarterly basis, within 60 days after quarter-end. LMCI investors also receive annual audited financial statements as described in Item 15 below and their respective annual tax reports from Lionheart. In general, these reports include the balance sheet, income statement and statement of cash flows for LMCI, the investor's capital account statement, a status report of investments and activities during the quarter, and a schedule regarding fees received by Lionheart for its advisory services to LMCI. Lionheart may make the reports available in hardcopy or solely via electronic transmission or in electronic form on its website unless otherwise requested by a LMCI investor. Lionheart, in its discretion, may provide more frequent reports and/or more detailed information to any of the investors in LMCI, LRECS or LRECS II.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefit for Providing Services to Non-Clients

No one other than the Clients provides an economic benefit to Lionheart for providing investment advice or other advisory services to the Clients.

B. Compensation to Non-Supervised Persons for Client Referrals

Neither Lionheart nor of any of its related persons compensate any person who is not a supervised person of Lionheart for advisory client referrals.

ITEM 15 - CUSTODY

Lionheart is deemed to have custody of the funds and securities of the Funds and AIP Clients, but the Firm does not maintain physical custody of such assets. All funds and securities of the Funds and AIP Clients are held at accounts maintained in the Clients' names with "qualified custodians" within the meaning of the applicable rules under the Advisers Act.

Investors in LMCI will not receive quarterly account statements from the qualified custodians. Instead, on an annual basis within 120 days of LMCI's fiscal year end, investors in LMCI receive financial statements, prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent accountant recognized by the Public Company Accounting Oversight Board ("PCAOB").

Investors in LRECS and LRECS II will receive quarterly account statements from the qualified custodians. Additionally, on an annual basis, but irregular from year to year, LRECS and LRECS II will undergo a surprise examination by an independent public accountant to verify its custodied assets. Among other things, any material discrepancies found by the accountant must be reported to the SEC within one day.

Lionheart does not maintain custody of the funds and securities of any Separate Account.

ITEM 16 – INVESTMENT DISCRETION

Pursuant to the Governing Documents of LMCI, Lionheart has been delegated discretionary authority over investment acquisition, disposition and overall management of LMCI, subject to the limitations and restrictions expressly set forth in such Governing Documents. Lionheart provides non-discretionary advisory and management services to LRECS and LRECS II, the terms of which are set forth in such Client's respective Governing Documents. Lionheart provides administrative services to the Separate Accounts, which do not include discretionary or non-discretionary advisory and management services.

ITEM 17 – VOTING CLIENT SECURITIES

A. Client Security Voting Policy

Lionheart's investment strategy does not generally involve the acquisition of public securities with voting authority, so it is unlikely that the Clients or Lionheart will be placed in a position of proxy voting authority. However, instances in which a proxy vote is available will be evaluated on a case-by-case basis.

Lionheart's proxy voting policies and procedures and a summary of how Lionheart has voted any proxies shall be made available on request to investors free of charge and can be obtained by contacting the Firm.

B. Authority to Vote Client Securities

Lionheart accepts and maintains the authority to vote Client securities where applicable. As described above, given the nature of Lionheart's business voting Client securities is generally not relevant.

ITEM 18 – FINANCIAL INFORMATION

- A.** Lionheart does not require or solicit prepayment of more than \$1,200 in fees from any Client six months or more in advance.
- B.** Lionheart does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to the Clients.
- C.** Lionheart has not been the subject of a bankruptcy petition at any time during the past ten years.