

**ITEM 1. COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**3650 REIT INVESTMENT MANAGEMENT LLC**

March 30, 2024

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**This brochure provides information about the qualifications and business practices of 3650 REIT INVESTMENT MANAGEMENT LLC and its relying adviser (“3650IM”). If you have any questions about the contents of this brochure, please contact us at (305) 901-1010. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about 3650 REIT INVESTMENT MANAGEMENT LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**3650 REIT INVESTMENT MANAGEMENT LLC is registered with the SEC as an investment adviser. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.**

## **ITEM 2. MATERIAL CHANGES**

Since the last annual update to our brochure dated March 30, 2023, the following material changes have been made:

- Item 4 and Item 8 updated to reflect the addition of a dedicated special situations vehicle and discussion of attendant strategy risks.

Certain non-material changes were also made to this brochure. Consequently, we encourage you to read the brochure in its entirety.

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## ITEM 4. ADVISORY BUSINESS

### *General Description of 3650IM*

3650 Holdings LP (“**Holdings**” and, together with its affiliated entities, “**3650**” or the “**Firm**”) was formed to be an integrated commercial real estate (“**CRE**”) investment and services firm with activities across CRE debt and equity sectors. Holdings is the indirect parent company of 3650IM. 3650IM, a Delaware limited liability company and a registered investment adviser, was founded in October 2016. Toby Cobb, Justin Kennedy and Jonathan Roth, are the Managing Partners of 3650 and collectively own a majority of 3650IM through their ownership in Holdings.

The Firm comprises the following businesses, among others: investment and risk management, capital markets, asset management, loan and preferred equity origination/underwriting, and servicing. Each of these business areas is part of 3650’s vertically integrated platform (*i.e.*, each business area contributes in a fundamental way to the analysis, origination or management of client investments) and its investment strategy. For more information regarding these businesses and related conflicts, please refer to Item 5 and Item 10 below.

In addition to its main office in Miami, Florida, 3650IM provides investment management services from offices in New York, New York and Beverly Hills, California.

### *Description of Advisory Services*

3650IM provides CRE-related advisory services principally regarding debt including mortgages, structured finance products, bridge lending, preferred equity, direct equity investments in CRE and other investment opportunities. All 3650IM strategies seek to emphasize the vertically integrated approach facilitated by its platform infrastructure.

Currently, 3650IM provides investment advisory services to co-investment vehicles and joint ventures (each, a “**JV**”) that pursue one of two currently available investment strategies: (1) a first lien, fixed-rate, target loan strategy or (2) a bridge-and-event-driven strategy (*e.g.*, bridge lending, construction lending, preferred equity) that invests in participation interests in loans originated by an affiliate of 3650IM. The JVs at times employ their respective investment strategy by investing all of their assets in a designated subsidiary real estate investment trust (“**REIT**”) and/or a designated subsidiary investment vehicle (“**SubCo**”) that originates and acquires a number of commercial real estate loans and certain other commercial real estate debt investments. 3650IM also provides advisory services to vehicles (“**SS Vehicles**”) employing a special situation strategy. 3650IM expects to provide similar services to other clients in the future (such future clients, together with the JVs, and the SS Vehicles, the “**Clients**” and each a “**Client**”).

Notwithstanding the fact that 3650IM does not consider REITs, SubCos wholly owned by Clients or intermediate holding companies, to be investment advisory clients, for ease of review “Clients” includes the designated subsidiary REITs and SubCos of the JVs, unless the context otherwise requires. 3650IM also offers CRE-related advisory services regarding singular, one-off, opportunistic transactions.

The advisory services provided each Client and any limitations thereon are detailed in each Client's governing documents, offering documents, investment management agreement or similar agreement with 3650IM, as applicable ("**Operative Documents**").

Various entities that are affiliated with the 3650 serve as general partners (each, a "**General Partner**") to certain of our Clients. 3650 Bridge Cal – SMA Manager LLC ("**Manager**") is a relying adviser and serves as the managing member and adviser to one of our Clients. As applicable, references to 3650IM herein shall include the General Partners and/or the Manager. Please see "Other Financial Industry Activities and Affiliations" below for a further discussion of certain entities affiliated with 3650IM. These affiliates are also disclosed in the Part 1A of 3650IM's Form ADV.

3650IM does not participate in wrap fee programs and does not manage wrap fee accounts.

### **Co-Investments.**

3650IM or its affiliates have provided in the past and anticipate providing in the future co-investment opportunities to one or more strategic and relationship co-investors. Subject to any contractual obligations to a Client or the underlying investors of a Client regarding co-investments, 3650IM, in its sole discretion, will determine the potential strategic and relationship co-investors, which will include persons that provide, or are expected to provide, strategic benefits in connection with sourcing or consummating the investment opportunity or following consummation of the investment, such as operational or similar strategic benefits, committed financing or lending support, certainty or expediency of closing, support in diligence or industry expertise, benefits to the investment in terms of regulatory or tax profile, or otherwise.

### **Availability of Tailored Services.**

3650IM manages each Client in accordance with its governing documents and investment management agreement which include negotiated guidelines, restrictions regarding investments and other investment criteria and certain consent requirements including, but not limited to, consent rights with respect to: (1) any origination, acquisition or financing of any loan or other investment made by the JV the securitization of loans, (2) certain work-out decisions relating to the loan assets, (3) certain dispositions of investments and (4) certain other actions taken by the JV (including action taken by parallel investment holding companies and REITs). Each JV has been tailored to meet specific investor requirements including, *e.g.*, (1) investment type (*e.g.*, senior secured or mezzanine loans), (2) portfolio diversification (*e.g.*, loan size and property type) and (3) loan maturity (*e.g.*, minimum and maximum terms). Advisory services regarding singular, one-off, opportunistic transactions also are tailored to meet specific investor preferences.

### **Client Assets Under Management.**

As of December 31, 2023, 3650IM had regulatory assets under management of approximately \$2,726,645,343, of which approximately \$1,173,986,485 were managed on a discretionary basis and approximately \$1,552,658,858 were managed on a non-discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

### **Fee Schedule.**

3650IM's fee schedule is omitted because this brochure is being delivered only to qualified purchasers, as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 (the "**Investment Company Act**").

The terms for payment of (1) management fees, (2) incentive-based compensation, (3) any offsets and (4) expenses regarding the Clients are set forth in the relevant Operative Documents.

Management fees are paid quarterly in advance through a capital call made to the applicable investors. If the advisory arrangement is terminated during a quarter, the pro rata portion of the management fee for the remainder of the quarter, minus reasonable expenses, will be returned to the applicable investors.

### **Other Compensation 3650IM's Affiliates Receive in Connection with the Loans.**

3650IM's strategies generally involve loan origination and loan pool financing activities which require that certain asset-level processes be performed. 3650IM believes that its affiliates perform these processes in a manner that is of higher quality and reliability, as well as more timely, than services generally available from third-party service providers. 3650IM contracts with affiliates to perform certain required asset-level processes upon terms similar to those available from third-party providers. From time to time, however, 3650IM may conclude that a third party may provide such service in a superior or more efficient manner and contract such with such third-party provider. It is important to note that fees paid to 3650IM affiliates will not be negotiated at arm's-length and may be higher than fees payable to unaffiliated third parties.

To the extent that 3650IM or its affiliate performs all or a portion of the services listed above, the costs of such services will be reimbursed by (as applicable) a subsidiary REIT or SubCo and/or the pertinent Client. To the extent that a third party performs such services and 3650IM incurs all or a portion of the corresponding expenses listed above, such expenses also will be reimbursed by (as applicable) the REIT, SubCo and/or the pertinent Client. Each Client ultimately bears its share of applicable expenses paid by the REIT, SubCo or Manager (as applicable) and reimburses the REIT, SubCo or Manager (as applicable) accordingly as set forth in the Operative Documents.

For example, in accordance with the Operative Documents, Clients may pay (directly or indirectly), 3650IM's affiliated service providers fees including:

- Direct loan origination fee—regarding any investment sourced by such affiliate and originated by the REIT or SubCo
- REIT management fee— regarding services rendered as a REIT manager
- Third-party arranged loan origination fee—regarding any investment originated as the result of the relationship between the originator and such affiliate
- Bank arranged loan sourcing fee—a percentage of the loan balance paid to banks for loans sourced through the "arranger bank" process
- Underwriting and due diligence fee—regarding investment due diligence

- Loan processing fee—regarding the processing of any loan (provided that in some instances, to the extent the borrower for a portfolio investment pays the loan processing fee to a 3650IM affiliate, such fee will reduce, on a dollar-for-dollar basis, the amount of the fee paid by the Client)
- Permanent Financing (as defined below) preparation fee—regarding loan data collection, verification and formatting, the preparation of scenario modeling tools, the preparation of rating agency loan packages and other loan and portfolio data management processes in connection with the preparation of any Permanent Financing
- Primary loan servicing fee—regarding any investment serviced by such affiliate
- Special servicing loan fee—regarding any investment in default serviced by such affiliate
- Liquidation fee—regarding any investment in default for which such affiliate performs liquidation-related services to the extent not otherwise paid by the borrower
- Workout fee—regarding any investment in default to the extent not otherwise paid by the borrower
- Securitization special servicing fees— regarding special servicing described that are paid by borrowers, by an issuer of or notes issued in a securitization that is intended to be treated as the issuance of indebtedness for federal income tax purposes or by a trust issuing passthrough certificates with respect to target loans held in a securitization
- Investment level fees—regarding any portfolio investment, fees charged by may third parties or 3650IM affiliates in exchange for services (including, without limitation, origination services, loan-servicing services, underwriting services, securitization services and accounting services, some of which are described above in more detail)

### **Third-Party Fees/Expenses.**

Similarly, a Client may pay third parties or reimburse 3650IM the Client's share of the following fees and expenses, among others, if/as applicable:

- Securitization fees/expenses—a percentage of the pool balance for underwriting, placement, rating agencies, legal and other costs
- Broken deal expenses—third-party loan origination expenses (e.g., appraisal, environmental, property condition, legal, etc.) are generally paid from up-front deposits funded by the borrower; however, in certain instances of broken deals, a Client may bear some of these costs
- Sub-servicing fees
- Fees for loan administration and cash management The payment of any of the fees described above will not cause a reduction of the advisory fees nor will such fees be taken into account when determining the incentive-based compensation, as applicable.

### **Additional Information Regarding Expenses.**

3650IM bears its own “overhead” expenses (including compensation of officers and employees of 3650IM and general office overhead); provided, however, some accounting fees may be charged to a Client or pooled-investment vehicle, in accordance with the applicable Client's or pooled-investment vehicle's consent or written agreement.

Expenses related to consummated transactions are generally shared *pro rata* by all investors participating in the transaction, including Clients, co-investment vehicles or funds. Potential co-investors who are offered an opportunity to invest alongside a Client share broken deal expenses only if the particular co-investor has a contractual obligation to co-invest in the particular transaction and/or bear such expenses regarding the specific investment. Therefore, the participating Client, and not a potential co-investor, typically bears these expenses.

Please note that the above list of expenses and fees above is not intended to be exhaustive and is provided for illustrative purpose. Detailed information about the types of fees and expenses, which may be significant, that a Client pays in connection with the advisory services that 3650IM provides is contained in the relevant Operative Documents.

Additionally, please see Item 10 for discussion regarding conflicts of interest related to the 3650IM's use of affiliated service providers and Item 12 for discussion of the brokerage and other transaction costs.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Each Client potentially pays performance-based compensation to the extent the applicable Client exceeds a specified hurdle number. These performance-based compensation arrangements may create an incentive 3650IM to make or recommend more speculative investments than would otherwise be made or recommended, if such performance-based compensation was not received.

Managing assets for different Clients with different fee structures, including the side-by-side management of Clients that pay different levels of performance-based compensation can create a conflict of interest for 3650IM. Similarly, the side-by-side management of Clients in which 3650IM or its affiliates hold different levels of proprietary interest can create a conflict of interest. Such circumstances can create an incentive for 3650IM to favor accounts with the most profitable performance-based compensation structure or the highest level of proprietary investment. Additionally, such circumstances give rise to potential conflicts of interest including with respect to:

- The allocation of investment opportunities; and
- Transactions among Clients (i.e., cross trades)

3650IM addresses these possible conflicts through its cross/principal trade and trade allocation policies. Please see Item 11 below for further discussion regarding the allocation of investment opportunities and transactions among Clients.

## **ITEM 7. TYPES OF CLIENTS**

3650IM provides investment advisory services to private funds including single investor funds. Investment advice is provided directly to the Clients, and not individually to the investors in such Clients. Investors may include, but are not limited to, high net worth individuals, family offices, funds of hedge funds, endowments, foundations, trusts, charitable organizations, pension plans, and sovereign wealth funds.



With limited exceptions, where permitted by applicable law, 3650IM requires that its Clients and investors in the funds it advises (and other investors) to be “qualified purchasers” as that term is defined in Section 2(a)(51) of the Investment Company Act (with the exception of certain 3650IM personnel who qualify as “knowledgeable employees” under Rule 3(c)-5 of the Investment Company Act).

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### Methods of Analysis.

As noted in Item 4, the 3650 entities comprise a number of business areas, several of which contribute in a fundamental way to 3650IM’s investment analysis and integrated CRE strategy. The CRE strategy focuses primarily on CRE mortgage lending and special opportunities in CRE debt and equity securities. Being “vertically integrated” means that 3650 controls all aspects of the life cycle of the CRE loans and other investments, including with respect to sourcing capabilities, the investment process, asset management, relationship servicing, hedging and financing/securitization. For more information regarding these business areas, please refer to Item 10.

Below are brief summaries of certain of the primary elements of the investment analysis and lending process (each Client engages in a different process, thus some of the items below may be inapplicable for any given Client):

- Initial Screening Process. The origination team pre-screens opportunities to determine their suitability based on the Client’s credit parameters, investment goals and risk-adjusted return targets.
- Underwriting and Due Diligence. Upon the receipt of the executed term sheet and expense deposit, in-depth underwriting and due diligence will be performed on each potential opportunity.
- Structuring and Negotiation. The deal team will coordinate with the investment team to vet the potential origination opportunity to understand the risks particular to the transaction and determine if those risks can be properly structured and priced to generate attractive risk-adjusted returns consistent with the Client’s goals. If the potential borrower accepts the proposed terms, the deal team will then present the transaction to the Firm’s Investment Committee (the “IC”).
- Investment Committee Process. The IC meets regularly to review potential transactions and provides final funding approval for all loans and major investment decisions. Each potential origination opportunity must be submitted to the IC for formal review and approval.
- Hedging. Simultaneous with the rate lock or the closing (as applicable) of a loan, to the extent applicable for a given JV’s investment requirements the structuring team will

implement the investment team's interest rate and credit spread hedging strategy with respect to liabilities incurred or to be incurred in order to carry the loan as an asset.

- Financing. As applicable, the appropriate interim financing is determined for each completed loan. Warehouse and leverage-provider lenders are selected strategically and the terms and conditions of each warehouse credit facility are negotiated.
- Asset Management and Servicing. The servicing team monitors and administers the loan on an ongoing basis. The primary goal of the servicing team is to identify emerging risk factors impacting portfolio loans, individual collateral properties or borrower sponsors. If a loan goes into default, the servicing team (with oversight from the investment team) will seek to mitigate losses and protect the investment in the loan. It is expected that certain administrative servicing functions will be performed by a third-party sub-servicer.

#### Investment Strategies.

3650IM's strategies involve (1) accessing the expertise of its affiliates in an integrated investment approach to CRE investing and (2) leveraging the cross-sector capabilities of the 3650 platform to achieve superior risk adjusted long-term returns relative to other CRE strategies (e.g., those based on programmatic concepts and/or outsourcing basic tasks to third-party service providers). This integrated approach includes the sourcing of new CRE investment opportunities in commercial mortgage lending and the management of such investments through their full life cycles.

Within CRE investing, 3650IM pursues two distinct strategies (with additional strategies being developed and implemented by 3650IM on a rolling basis):

- CRE Target Loans (as defined below); and
- bridge-and-event-driven strategy / special situations (e.g., bridge lending, construction lending, preferred equity investments, equity investments, etc.).

Further, as part of its investment strategies and as noted under Item 4, 3650IM has established multiple and may in the future establish additional subsidiary REITs and SubCos to hold certain Client portfolio investments, principally mortgage loans originated or acquired to be held for investment. Additionally, the sale of Related REMIC Securities (as defined below) may, in some cases, be made through a taxable REIT subsidiary.

Basic to both strategies is the integrated platform described above that provides for hands-on sourcing, diligence, asset management, loan servicing and resolution/workout processes. Basic to the CRE Target Loans strategy (as defined and described below) is the securitized leverage structure which is expected to enhance the impact of the integrated platform *vis-à-vis*:

- Asset level control of asset management;
- Workout situations; and
- Flexibility.

Additionally, 3650IM has invested, and may invest in the future, on behalf of a Client in: (1) B-notes relative to CRE loans; (2) so-called "B-pieces," representing the most subordinated interests

in securitization transactions, and other bonds relating to CRE loans and/or associated securitizations; (3) preferred equity interests in, or mezzanine loans related to, pass-through entities owning CRE; and (4) equity interests in CRE.

### **CRE Target Loans.**

One CRE lending strategy targets origination and acquisition of first-lien, fixed-rate CRE loans with certain parameters (the “**Target Loans**”) secured by stabilized, well-located properties throughout the United States. As an investor, the Client acts as a “spread lender,” collecting the interest income on its loan assets less the interest expense of its matched-term secured financing.

The strategy also contemplates that the Client will use leverage on a secured basis in connection with the origination or acquisition and financing of Target Loans and other investments. Pools of Target Loans are expected to be refinanced with long-term, secured financing of investments. Such long-term, secured financing will be effected, *e.g.*, through (1) the issuance of indebtedness secured by a pool of assets and incurred through a securitization transaction (“**Securitized Liabilities**”), (2) the sale of pass-through certificates issued by a “real estate mortgage investment conduit” (“**REMIC**”) and secured by a pool of CRE loans, 20% or more of the value of which may be contributed by the Client or its affiliate to the REMIC (“**Related REMIC Securities**”), or matched-term secured financing in other formats. (Any such Securitized Liabilities, Related REMIC Securities or other long-term, secured financing is referred to herein as “**Permanent Financing**”).

### **Bridge-and-Event; Special Opportunities.**

This strategy involves the investment, from time to time, in “one-off” or “bespoke” opportunities that may arise in CRE debt markets based on timing, liquidity or other “special situation” factors. These types of transactions include:

- Opportunistic commercial mortgage-backed securities (“CMBS”) B-pieces and other bonds associated with securitizations;
- Distressed debt situations;
- Construction loans, including bridge lending; and
- Mezzanine/Rescue/Preferred equity situations generally in conjunction with first lien debt opportunities.

### **Risks of Loss.**

All investments involve the risk of a partial or full loss of capital that Clients and investors should be prepared to bear.

### **General Risks Related to CRE and CRE-Related Investments.**

The value of CRE and CRE-related investments fluctuates depending on many factors, including conditions in the general economy and the CRE business. Below are a number of risk factors that could impact the value of such investments.

General risk factors that affect the value of such investments are many and include, among other things:

- Operating cash flow decline/interruption, which can arise from numerous events including, but not limited to:
  - Failure/insolvency of tenant businesses;
  - Failure to renew tenants at lease expiration based on competitive supply;
  - Failure to renew tenants/declining rents due to inferior/obsolete location, design, etc.;
  - Declining rents due to competition from properties in the local/regional markets;
  - Declining rents due to over-supply of space in local/regional markets;
  - Declining rents/space demand due to contracting local/regional economy;
  - Declining rents/space demand due to secular paradigm shift (*i.e.*, internet retail);
  - Declining rents/space demand due to sponsor failure to optimally invest in capital items;
  - Declining operating margins due to rising operating expenses, taxes and/or declining recoveries; and
  - Changes in government regulations (zoning, environmental, etc.) that restrict uses.
- Property value decline due to (in addition to any of the above listed factors or others):
  - Declining national economic conditions or condition of financial markets;
  - Rising interest rates and/or rising relative investment returns;
  - Rising risk premiums/credit spreads in CRE debt markets;
  - Falling liquidity/availability of financing in CRE debt markets;
  - Negative changes in market rental and occupancy rates;
  - Unfavorable perceptions of prospective tenants of the safety, convenience and attractiveness of the properties; and
  - The inability of the owners to provide adequate management, maintenance and insurance.
- Lack of available financing or refinancing on acceptable terms and liquidity risk at maturity due to (in addition to any of the above listed factors or others):
  - Declining credit quality/poor sales of tenants;
  - Rent roll risks of tenant lease expirations;
  - Decline in marketability of the property due to inferior/obsolete location, design, etc.;
  - High operating costs or capital costs to attract tenants; and
  - Deteriorating borrower/sponsor creditworthiness due to, e.g., declining net worth, liquidity, credit; insolvency; litigation; regulatory action; fraud or felony, etc.
- Other property risks related to casualty, environmental, government issues or economic obsolescence which include, but are not limited to:
  - Property condition (criminal activity, insect infestation, etc.);
  - Acts of God (e.g., earthquake, hurricane, etc.), terrorist attacks, pandemics, social unrest and civil disturbances;
  - Uninsured casualty risk/business interruption/non-insurability (TRIA);
  - Zoning change, land use restrictions (e.g., roadway access, bike lane, etc.);
  - Regulatory change;
  - Eminent domain;

- Economic obsolescence;
- Energy supply shortages;
- Secular technology change/demand shift (e.g., internet retail, driverless cars, etc.); and
- Sponsor/borrower/tenant fraud.
- National/global CRE market risks which include, but are not limited to:
  - Deterioration in debt market conditions generally (e.g., decreasing broad debt markets liquidity, increasing credit market spreads and decreasing equity market earnings multiples);
  - Deterioration in CRE capital markets generally (e.g., decreasing CRE debt markets liquidity, increasing CRE debt spreads, decreasing REIT equity multiples, increasing cap rates, etc.);
  - Declining cash flow at properties underlying 3650IM loans;
  - Declining market value of properties underlying 3650IM loans;
  - Declining market value of 3650IM loans (“spread-lock” and warehouse assets only);
  - Reduced future availability of CRE debt capital resulting in reduced ability to refinance 3650IM loans at maturity;
  - Declining national and/or global economic environment and resulting declines in CRE rental demand and rental rates; and
  - Rising interest rates and/or credit spreads may trigger increasing cap rates and/or market yields for CRE debt instruments.
- Market risks regarding the 3650IM strategies and/or financing structures include, but are not limited to:
  - Rising interest rates which lead to:
    - A decline in market value of 3650IM loans “rate-locked” and on warehouse line causing need for additional warehouse margin;
    - A decline in market value of 3650IM loan assets after CMBS financing;
    - Increased cost of warehouse and/or CMBS financing erodes 3650IM yield and return;
    - Rising short-term rates or flattening curve environment that erodes 3650IM yield during warehouse period;
    - Sharp rise in interest rates near maturity causing refinancing risk; and
    - Difficulty in hedging interest rate risk.
  - Borrower/Sponsor risks regarding the 3650IM strategies include, but are not limited to:
    - Loss of financial ability to invest in the property;
    - Insolvency or bankruptcy of the borrower or the sponsor;
    - Deterioration of sponsor financial health that, as noted above, impacts refinancing;
    - Incompetence/poor management of sponsor; and
    - Fraud, waste or environmental issues.
- Weakened creditor rights;
- U.S. tax risks;
- The cost of complying with the Americans with Disabilities Act;

- International and national disruptions to economic activity (e.g., wars, pandemics, etc.); and
- Other factors beyond the control of 3650IM.

As noted above, a variety of economic and other factors may adversely affect a tenant's ability to meet its obligations which may impact the borrower's ability to meet its obligations. In the event of a default by a tenant, a Client may incur substantial costs associated in protecting its investments.

### **Non-Performing Loan Acquisitions.**

Clients may purchase whole or partial interests in non-performing loans, which by their nature are risky. Not only are such loans non-performing, but by purchasing partial interests and debt interests, the Client may not have control over the workout process and the management of the real estate asset. There can be no assurance that such acquisitions will be successful.

### **General Risks Associated with Debt Investments.**

Debt investments are subject to credit and interest rate risks. “**Credit risk**” refers to the likelihood that a borrower will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of a borrower 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. “**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 debt) and directly (especially in the case of debt 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 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. In addition, interest rate increases generally will increase the interest carrying costs to a Client of leveraged investments.

In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and interest rate risk, Clients are subject to a variety of risks in connection with debt investments, including the risks of illiquidity, lack of control, mismanagement or decline in value of the underlying real estate, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the Client's exercise of contractual remedies for defaults of such investments. Investments in debt also are subject to the risk that, upon maturity of the loan, replacement “takeout” financing will not be available.

### **General Credit Risks of Loan Origination on CRE Properties.**

Loans on CRE properties generally lack standardized terms, which may complicate their structure and increase due diligence costs. CRE properties tend to be unique and are more difficult to value

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

Investing in CRE loans is subject to cyclicalities and other uncertainties. The cyclicalities and leverage associated with CRE loans also have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. CRE loans generally are non-recourse to borrowers. CRE loans are subject to the effects of: (i) the ability of tenants to make lease payments; (ii) the ability of a property to attract and retain tenants, which may, in turn, be affected by local conditions, such as an oversupply of space or a reduction in demand for rental space in the area, the attractiveness of properties to tenants, competition from other available space and the ability of the owner to pay leasing commissions, provide adequate maintenance and insurance, pay tenant improvement costs and make other tenant concessions; (iii) the failure or insolvency of tenant businesses; (iv) interest rate levels and the availability of credit to refinance such loans at or prior to maturity; (v) compliance with regulatory requirements and applicable laws, including environmental controls and regulations; and (vi) 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. If the properties securing the loans do not generate sufficient income to meet operating expenses, debt service, capital expenditure and tenant improvements, the obligors under the loans may be unable to make payments of principal and interest in a timely fashion. Income from and values of properties are also affected by such factors as the quality of the property manager, applicable laws, including tax laws, interest rate levels, the availability of financing for owners and tenants and the impact of and costs of compliance with environmental controls and regulations.

While CRE loans originated or acquired by Clients are intended to be over-collateralized, Clients may be exposed to losses resulting from default and foreclosure. A Client cannot guarantee the adequacy of the protection of its interests, including the validity or enforceability of the CRE loans and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, a Client cannot assure that claims may not be asserted that might interfere with enforcement of its rights. In the event of a foreclosure, the Client or a subsidiary of the Client may assume direct ownership of the underlying asset, and the value at that time of the collateral securing the loan may be less than the principal amount outstanding on the loan and the accrued but unpaid interest thereon. The liquidation proceeds upon a sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Client. Any costs

or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss.

### **Prepayment Rates.**

Prepayment rates may adversely affect the value of a Client's investments. Prepayment rates on a Client's investments, where contractually permitted, are influenced by changes in current interest rates, significant improvement in the performance of underlying real estate assets and a variety of economic, geographic and other factors beyond the 3650IM's control. Consequently, prepayment rates cannot be predicted with certainty, and no strategy can completely insulate a Client from increases in such rates. In periods of declining interest rates, prepayments on Client investments will generally increase and the proceeds of prepayments received during these periods may generally be reinvested by 3650IM during the commitment period in comparable assets at reduced yields. In addition, the market value of Client investments subject to prepayment may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on investments, where contractually permitted, generally decrease, in which case a Client would not have the prepayment proceeds available to invest in comparable assets at higher yields. Furthermore, with respect to acquisitions, a Client may acquire assets at a discount or premium and a Client's anticipated yield would be impacted if such assets prepay more quickly than anticipated. Under certain interest rate and prepayment scenarios, a Client may fail to recoup fully its cost of certain investments. In certain of a Client's investments, the Client may be entitled to fees upon their prepayment although no assurance can be given that such fees would adequately compensate the Client as the functional equivalent of a "make whole" payment. Furthermore, the Client may not be able to structure investments to impose a make whole obligation upon a borrower in the case of an early prepayment.

### **Cyclicity.**

Investing in CRE-related instruments is subject to cyclicity and other uncertainties. The cyclicity and leverage associated with CRE-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments.

### **Availability of Insurance.**

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism, pandemic, loss of income, or acts of war that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism, pandemic, or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received might not be adequate. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property.

### **Risks Related to the Real Estate Sectors in Which a Client May Invest.**

3650IM's Clients generally originate and acquire CRE loans and other CRE debt investments secured by properties primarily in the retail, office, multi-family, industrial, hospitality, student



housing, senior housing, self-storage, mixed-use real estate sectors, and mobile home park sectors. In addition to the general real estate risks described herein, these sectors are subject to the following additional risks, which may impair a borrower's ability to make payments on a CRE loan. CRE equity investments may be similarly affected by real estate property values and risks associated with real estate. Therefore, CRE equity, debt and securities investments are subject to the risks typically associated with real estate and the sectors detailed below:

***Retail Properties.*** Retail properties are affected by the health of the retail industry. A particular retail property may be adversely affected by the bankruptcy or decline in popularity of an anchor, shadow anchor (i.e., an anchor at a nearby shopping center that attracts customers to another retail property) or major tenant, a shift in customer demand due to demographic changes (including, for example, population changes, changes in average age or changes in income) and/or changes in customer preference. The failure of an anchor, shadow anchor or major tenant to renew its lease, the termination of an anchor, shadow anchor or major tenant's lease, the economic decline of an anchor, shadow anchor or major tenant, or the end of the business of an anchor, shadow anchor or major tenant at a particular location or all locations, notwithstanding that such tenant may continue paying rent, may have a particularly negative impact on the performance of a shopping center given the importance of anchors, shadow anchors and other major tenants in attracting traffic to the shopping center as a whole. Also, depending on the applicable leases, the failure of one or more major tenants to continue operating from the retail property may entitle other tenants to rent reductions or to terminate their leases. In addition, replacing anchor tenants may require significant time and capital expenditures in order to re-develop or re-configure space. Retailers also face continued competition from shopping through various means and channels, including via the internet, lifestyle centers, value and outlet malls, wholesale and discount shopping clubs and television shopping networks. Competition of this type has had, and could continue to have in the future, an adverse effect on retailers' revenues.

***Office Properties.*** Office properties may require their owners to invest significant cash to pay for general capital improvements, tenant improvements and costs of re-leasing space. Office properties may become obsolete and non-competitive if they are not equipped to accommodate the current needs of businesses. In addition, a number of factors may adversely affect the value of office properties, including: (i) the quality of tenants; (ii) the physical attributes of the building in relation to its competition (including with respect to technological needs of tenants); (iii) location; (iv) presence of competing properties; and (v) the strength and nature of the local economy (including labor costs and quality of labor, the tax environment and the quality of life for employees). Also, the cost of refitting office space for a new tenant is often higher than the cost of refitting other types of properties for new tenants.

***Multi-family Properties.*** The multi-family market is, in general, characterized by low barriers to entry. Thus, a particular apartment or condominium/townhome market with historically low vacancies could experience substantial new construction and a resultant oversupply of units in a relatively short period of time. Since multi-family units are typically leased on a short-term basis, tenants can easily move to properties with more desirable amenities or locations. A large number of factors may adversely affect the value and successful operation of a multi-family property, including: (i) physical attributes of the building; (ii) the location of the property (for example, a change in the neighborhood over time); (iii) the provision of adequate maintenance and insurance; (iv) the types of services and amenities the property provides; (v) the property's reputation; (vi)

mortgage interest rates (which, if relatively low, may encourage tenants to purchase rather than lease); (vii) the tenant mix, such as the tenant population being predominantly students or being heavily dependent on workers from a particular business; (viii) the generally short terms of residential leases and the need for continued re-letting; (ix) rent concessions and month-to-month leases, which may impact cash flow at the property; (x) restrictions on the age of tenants who may reside at the property, thereby limiting the pool of potential tenants; (xi) dependence on governmental programs that provide rent subsidies or tax credits to developers to provide certain types of development; (xii) the existence of competing properties; (xiii) state and local regulations; and (xiv) local or national economic conditions.

In addition, multi-family properties may be subject to various tax credit, city, state and U.S. federal housing subsidies, rent stabilization, use restrictions or similar programs. The limitations and restrictions imposed by these programs could result in losses on commercial mortgage loans. In the event the program is cancelled, it could result in less income for the multi-family property. These programs may include rent limitations that could adversely affect the ability of borrowers to increase rents and tenant income restrictions that may reduce the number of eligible tenants (with a resultant reduction in occupancy rates).

***Industrial Properties.*** Significant factors determining the value of industrial properties include: (i) the quality of tenants; (ii) building design and adaptability; and (iii) location (e.g., proximity to supply sources and customers and accessibility to distribution channels). The concern about the quality of tenants is magnified as a result of the fact that industrial properties may often be dependent on a single tenant. Properties used for industrial purposes may also create more environmental risks than other types of properties. Many industrial properties may require special construction accommodations, as a result of which the property may not be easily adapted to other uses.

***Hospitality Properties.*** Hotel properties are affected by a number of factors, including the location of the property, its quality, management ability, amenities, continuing expenditures for modernizing, refurbishing and maintaining the facilities, changes in travel patterns, adverse economic conditions and competing properties. Hotel properties tend to be affected quickly by adverse economic conditions and competition (as a result of the fact that they are generally rented for very short periods of time). The performance of a hotel property affiliated with a franchise depends on the continued existence and financial strength of the franchisor, the franchise's reputation and the duration of the franchise licensing or management agreements. In addition, a hotel's ability to attract customers may depend in large part on its having a liquor license (which may not be transferable). The hotel industry is also generally seasonal, depending in large part on the type and location of a specific property. This seasonality can be expected to cause periodic fluctuations in room and restaurant revenues, occupancy rates, room rates and operating expenses.

***Student Housing Facilities.*** Student housing facilities rely on their relationships with colleges and universities for referrals of prospective student-tenants or for mailing lists of prospective student-tenants and their parents. Many colleges and universities own and operate competing on-campus facilities. Changes in university admission policies and enrollment can adversely affect student housing facility rates and cause occupancy rates to decline. Any degradation of a university's reputation could also negatively impact occupancy rates. Leases at residence hall properties typically correspond to the university's academic year and require ten monthly rental installments,

instead of 12 monthly rental installments as is typical at off-campus properties. Residence hall properties may experience significantly reduced cash flows during the summer months. Furthermore, student housing facilities generally are re-leased each year during a limited leasing season and are therefore highly dependent on effective marketing and leasing efforts and personnel. Student housing facilities may be required to undertake significant costs under the Americans with Disabilities Act of 1990.

***Senior Housing Facilities.*** The value of senior housing facilities depends in large part on property operators or managers meeting performance expectations, including payments of all insurance, taxes, utilities, maintenance and repair expenses of such facilities. Investments in senior housing facilities entail the risk that cost estimates for necessary property improvements will prove inaccurate. Healthcare properties are often highly customized and the development or redevelopment of such properties may require costly improvements. The healthcare industry is highly competitive and operators and managers of senior housing facilities may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. The healthcare industry is highly regulated and changes in government regulation and reimbursement can have material adverse consequences on its participants, some of which may be unintended. Certain senior housing facilities, such as assisted and independent living facilities, generally are not reimbursable under government reimbursement programs, such as Medicare and Medicaid. Accordingly, a large majority of the resident fee revenues generated by these operations, therefore, are derived from private pay sources (consisting of the income or assets of residents or their family members) and only seniors with income or assets that meet or exceed the comparable region median can afford the daily resident and care fees at these communities. A weak economy, depressed housing market or changes in demographics could adversely affect their continued ability to do so.

***Self-Storage Facilities.*** Self-storage facilities typically enter into short-term leases (generally one year or less) with tenants and, as a result, may experience more volatile cash flows than commercial properties with medium- to long-term leases. Given their primarily short-term revenue sources, these facilities generally are more management intensive than properties leased to tenants under long-term leases. In addition, a decline in the real estate market will tend to have a more immediate effect on the net operating income of self-storage facilities as a result of their short-term revenue sources. Moreover, self-storage facilities may have limited alternative uses, and substantial renovation may be required in order to convert such properties to an alternative use. Any of the foregoing factors may lead to higher rates of delinquency or defaults on the mortgage loans secured by those properties.

The self-storage industry is large and highly fragmented. Typically, the principal competitive factors in this industry are convenience of storage rental locations, cleanliness, security and price. Competition tends to be significant and affects the occupancy levels, rental rates and operating expenses of self-storage facilities. Competition might cause a self-storage facility to experience a decrease in occupancy levels, limit its ability to raise rental rates or require it to offer discounted rates that could have a material effect on its results of operations and financial condition. The self-storage industry has in the past experienced overbuilding in response to perceived increases in demand.

***Mixed-Use Properties.*** Revenue from mixed-use properties may be reduced or limited if the retail operations of tenants are not successful. Economic, legal and/or competitive conditions may impact the success of tenants' retail operations and therefore the amount of rent and expense reimbursement received from tenants. Any reductions in tenants' abilities to pay rent adversely affects the financial condition of mixed-use properties. The success of mixed-use properties is often dependent on the continued presence of "anchor" tenants that occupy large amounts of square footage and pay a significant portion of total rents. Mixed-use properties are generally not readily convertible to alternate uses and require substantial capital expenditures.

***Mobile-Home Parks.*** The successful operation of a mobile-home park will generally depend upon the number of competing parks in the local market, as well as upon other factors, such as the age, appearance, reputation and management of the mobile-home park and the types of facilities and services the mobile-home park provides. Mobile-home parks also compete against alternative forms of residential housing, including multifamily rental properties, cooperatively-owned apartment buildings, condominium complexes and single-family residential developments.

Mobile-home parks are "special purpose" properties that could not be readily converted to general residential, retail or office use. Thus, if the operation of a mobile-home park becomes unprofitable due to competition, age of the improvements or other factors such that the borrower becomes unable to meet its obligations on the related CRE loan, the liquidation value of that property may be substantially less, relative to the amount owing on the CRE loan, than would be the case if the property were readily adaptable to other uses.

### **Risks Associated with Mezzanine Loans, B-Notes and Preferred Equity Interests.**

3650IM invests, on behalf of a Client, in mezzanine loans, B-notes and preferred equity interests, each of which is subordinated or otherwise junior in an issuer's capital structure and involves privately negotiated structures. To the extent a Client invests in subordinated debt or mezzanine tranches of an entity's capital structure or preferred equity interests, such investments and the remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of holders of more senior tranches in the issuer's capital structure and, to the extent applicable, contractual intercreditor and/or participation agreement provisions, which will expose the Client to greater risk of loss.

As the terms of such loans and investments are subject to contractual relationships among lenders, co-lending agents and others, they can vary significantly in their structural characteristics and other risks. For example, the rights of holders of B-notes to control the process following a borrower default may vary from transaction to transaction. Further, B-notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration. Like B-notes, mezzanine loans are by their nature structurally subordinated to more senior property-level financings. If a borrower defaults on a mezzanine loan or on debt senior to such loan, or if the borrower is in bankruptcy, the mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full. As a result, a partial loss in the value of the underlying collateral can result in a total loss of the value of the mezzanine loan. In addition, even if a Client is able to foreclose on the underlying collateral following a default on a mezzanine loan, it would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, a Client may need to

commit substantial additional capital and/or deliver a replacement guarantee by a creditworthy entity, which could include the Client, to stabilize the property and prevent additional defaults to lenders with existing liens on the property.

### **Investments in Distressed Assets.**

While 3650IM's Clients focus primarily on performing investments, 3650IM may invest on behalf of a Client in distressed assets or certain of a Client's investments may become nonperforming following the origination or acquisition thereof. Certain investments may include indebtedness related to properties that are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, loans or other debt interests of financially or operationally troubled borrowers or issuers are more likely to go into default than loans or other debt interests of other borrowers or issuers. Loans or other debt interests of financially or operationally troubled issuers are less liquid and more volatile than loans or other debt interests of borrowers or issuers not experiencing such difficulties. Investment in the loans or other debt interests of financially or operationally troubled borrowers or issuers involves a high degree of credit and market risk.

These financial difficulties may never be overcome and may cause borrowers to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that the Client may incur substantial or total losses on its investments and, in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of its original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding, the Client may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept different terms, including payment over an extended period of time. In addition, under certain circumstances, payments to the Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay the Client's ability to realize on collateral for loan positions held by (or on behalf of) the Client, may adversely affect the economic terms and priority of such loans through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the "cramdown" provisions of the bankruptcy laws.

### **Uncertain Exit Strategies.**

While loans purchased or originated by a Client or their respective subsidiaries have a stated maturity and/or duration, if 3650IM takes possession of the property securing any such loan, 3650IM is unable to predict with confidence the timing that an exit strategy for a given property will ultimately be available for a Client. Exit strategies that appear to be viable at certain times during the life cycle of an investment may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

### **Investments with Co-Investors.**

3650IM may co-invest on behalf of a Client in one or more investments with certain relationship or strategic investors, lenders, and/or other third parties through partnerships, joint ventures or other entities, which parties in certain cases may have different interests to those of the Client. Therefore, the Client's investments will be subject to typical risks in connection with third-party involvement, including the possibility that a third party may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the Client, or may be in a position to block action in a manner contrary to the Client's investment objectives. The Client may also in certain circumstances be liable for the actions of its third-party partners or co-investors. Investments made with third parties in partnerships, joint ventures or other entities may involve carried interest or fees payable to such third-party partners or co-investors, thereby reducing the distributions to the Client. In addition, such co-investments may or may not be on substantially the same terms and conditions as the Client, and such different terms may be disadvantageous to the Client or to any investor participating directly or indirectly therein.

### **Real Estate Valuation is Inherently Subjective and Uncertain.**

The valuation of the CRE that will secure or otherwise support a Client's investments is inherently subjective and uncertain due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. As a result, the valuations of the CRE that will secure or otherwise support the Client's investments will be made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the CRE markets.

### **Reliance on Servicers.**

An affiliate of 3650IM acts as the primary servicer and special servicer for many of the CRE loans held by (or on behalf of) the Clients with affiliated third-party servicers performing servicing functions for some CRE loans held by (or on behalf of) Clients. The quality of servicing, which will include collection of payments, monitoring of property financial condition and loan compliance and, following a default, modifying underlying mortgage loans, foreclosing on the underlying collateral and selling foreclosed properties and/or defaulted mortgage loans, can materially affect the returns due on the Client's portfolio. In addition, servicers are required to comply with various laws, including in certain cases, requirements to be licensed in various jurisdictions. The failure of such affiliate to perform its servicing obligations, or to maintain any necessary licenses or meet various requirements relating to such licenses, will have a material adverse effect upon the amount and timing of collections with respect to a Client's CRE loans.

If a Client or 3650IM on behalf of a Client retains a servicer other than such 3650IM affiliated servicer to service one or more CRE loans, the foregoing risk will be applicable to such relationship as well.

### **Risks Associated with Foreclosure.**

A 3650IM affiliate, on behalf of a Client, may find it necessary to foreclose on certain of its CRE loans and the foreclosure process may be lengthy and expensive. Whether or not the Client has participated in the negotiation of the terms of any such loans, there can be no assurance as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of the Client's rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the Client, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy-out of the borrower's position in the loan. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process and potentially resulting in a reduction or discharge of a borrower's debt. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if the Client is successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover its cost basis in the loan, resulting in a loss. Furthermore, any costs, including any applicable real estate transfer taxes, or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase the loss.

### **Environmental Risks.**

To the extent a Client forecloses on properties underlying the investments, the Client may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of, or exposure to, asbestos containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos containing materials.

### **Lender Liability Considerations; Equitable Subordination.**

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders on the basis of various evolving legal theories (collectively termed, "**lender liability**"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in

the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Loans originated by a Client will be limited in certain respects by anti-deficiency and “one form of action” laws that can, in certain circumstances, reduce or eliminate a lender’s right to collect a deficiency judgment if the lender’s collateral is insufficient to repay a loan.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender: (1) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower; (2) engages in other inequitable conduct to the detriment of such other creditors; (3) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (4) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.”

### **Compliance of Loans with Applicable Laws.**

Loans that a Client originates or acquires are directly or indirectly subject to U.S. federal, state or local governmental laws. Real estate lenders and borrowers may be responsible for compliance with a wide range of laws intended to protect the public interest, including, without limitation, the Truth in Lending, Equal Credit Opportunity, Fair Housing and Americans with Disabilities Acts and local zoning laws (including, but not limited to, zoning laws that allow permitted non-conforming uses). If the Client or any other person fails to comply with such laws in relation to a loan that the Client has originated or acquired, legal penalties may be imposed, which could materially and adversely affect the Client. Additionally, jurisdictions with “one action,” “security first” and/or “antideficiency rules” may limit the Client’s ability to foreclose on a real property or to realize on obligations secured by a real property. In the future, new laws may be enacted or imposed by U.S. federal, state or local governmental entities, and such laws could have a material adverse effect on a Client.

### **Expedited Transactions.**

3650IM may be required to undertake investment analyses and decisions on an expedited basis to take advantage of investment opportunities. In such cases, the information available to 3650IM at the time of making an investment decision may be limited, and 3650IM may not have access to detailed information regarding the borrowers underlying a debt investment and the property underlying the investment, such as physical characteristics, environmental matters, zoning regulations or other local conditions affecting such property. Therefore, 3650IM may not have knowledge of all circumstances that may adversely affect an investment. In addition, 3650IM may rely upon independent consultants in connection with the evaluation of proposed investments, and 3650IM cannot assure the accuracy or completeness of the information provided by such independent consultants.

### **Risks Associated with CMBS.**

**General.** Investing in CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations, including the risk of principal prepayment and defaults, as well



as the risks of investing in CRE as described above. CMBS generally are not guaranteed or insured by any governmental agency or instrumentality or any other person.

***CMBS and Prepayment Risk.*** CMBS generally provide for the payment of interest and principal on a monthly basis, and it is possible that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. The rate of prepayments on underlying mortgages affects the price and volatility of CMBS and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of CMBS are subject to varying degrees of prepayment risk. Prepayment risk is mitigated regarding the 10-year fixed rate strategy because it involves loans that are defeasance loans. Regarding the opportunistic strategy, prepayment risk also is mitigated because of pre-negotiated yield maintenance provisions designed to secure a minimum yield on the loan.

***Risks Associated with “B-pieces” and other CMBS bonds.*** 3650IM in certain instances invests on behalf of a Client in, or, in the event a Client finances its assets through securitizations, the Client in some instances retains, so-called “B-pieces,” and/or other CMBS bonds representing the most subordinated tranches issued by a CMBS or other securitization. Although CMBS generally have the benefit of first ranking security (or other exclusive priority rights) over any collateral, the timing and manner of the disposition of such collateral will be controlled by the related servicers and, in certain cases, may be controlled by or subject to consultation rights of holders of more senior classes of securities outstanding or by an operating advisor appointed to protect the interests of such senior classes. Proceeds of any sale of collateral or other realization on collateral may not be adequate to repay the Client’s investment in full, or at all. In addition, “B-pieces” generally receive principal distributions only after more senior classes of CMBS have been paid in full, and receive interest distributions only after the interest distributions then due to more senior classes have been paid. As a result, investors in “B-pieces” will generally bear the effects of losses and shortfalls on the underlying CRE loans and unreimbursed expenses of the CMBS issuer before the holders of other classes of CMBS with a higher payment priority, with the concomitant potential for a higher risk of loss for such “B-pieces.” In addition, the prioritization of payments of principal to senior classes may cause the repayment of principal of such “B-pieces” to be delayed and/or reduced. Generally, all principal payments received on the mortgage loans will be first allocated to more senior classes of CMBS, in each case, until their respective principal balances are reduced to zero, before principal is allocated to the “B-pieces” of CMBS. Therefore, “B-pieces” may not receive any principal for a substantial period of time. In addition, generally “B-pieces” will be subject to the allocation of “appraisal reductions” which will restrict their ability to receive any advances of interest that might otherwise be made by the related servicer.

Generally, a shortfall in payment to investors in “B-pieces” of CMBS will not result in a default being declared or the restructuring or unwinding of the transaction. To the extent that “B-pieces” represent a small percentage of the CMBS issued in relation to the underlying collateral, a small loss in the value of such collateral may result in a substantial loss for the holders of such “B-pieces” and may impact the performance of a Client.

### **Risks Related to the Target Loan Strategy**

***Investments in REITs Generally.*** As noted above under Item 4, certain investments made on behalf of a Client may be held by vehicles that qualify as REITs for federal tax purposes. In

addition to general risks related to real estate investments and economic and market conditions, investments in the debt or equity securities of a REIT involve other risks, including the failure of a REIT to maintain its qualification as a REIT.

REITs are dependent upon specialized management skills. In order to qualify as a REIT under the Code, REITs are required to pay out at least 90% of their income in the form of dividends and 100% in order to avoid taxation on such income. To the extent that a REIT does not distribute all of its net capital gain or distributes at least 90%, but less than 100%, of its “REIT taxable income,” as adjusted, it will be subject to tax on the undistributed amount at regular corporate tax rates. These distribution requirements make REITs particularly reliant on the proper functioning of capital markets.

Qualification as a REIT involves the application of highly technical and complex provisions in the Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize REIT qualification. A REIT that fails to remain qualified as a REIT is subject to regular U.S. federal corporate income tax (including any applicable alternative minimum tax) on its taxable income at the corporate tax rates, and dividends it pays would not be deductible by it. Net earnings available for distribution or reinvestment would be significantly reduced for each taxable year in which it does not qualify as a REIT under the Code.

Such a REIT also may be subject to additional state and local taxes. The results of failure to qualify as a REIT could reduce substantially the amount of cash available for investment or distribution to the shareholders and have other negative consequences, including the assessment of tax penalties. As of the date of this Brochure, one Client has not yet made a tax election with the Internal Revenue Service to be taxed as a real estate investment trust.

***Use of Leverage.*** Clients may use significant leverage, which increases the risk of loss. For example, there is no limit on the amount of leverage that may be utilized in connection with any Permanent Financing, and such Permanent Financing may be excluded from the leverage limitations applicable to such Client. 3650IM causes the Client to use leverage on a secured basis in connection with the origination or acquisition and financing of Target Loans and other investments, in the form and manner determined by 3650IM. While leverage presents opportunities for increasing the Client’s total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by a Client would be magnified to the extent such Client is leveraged. The cumulative effect of the use of leverage by a Client in a market that moves adversely to such Client’s investments could result in a substantial loss to such Client, which would be greater than if such Client was not leveraged. Leverage increases the exposure of a Client to adverse economic factors, such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Client’s investments or their corresponding markets.

Clients may incur indebtedness under facilities that bear interest at a fixed or floating rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various Client purposes.

The value of a Client may be negatively impacted in the event there is a breach under indebtedness of such Client or its investments. As a result of any such breach, or in the event a Client is not able to refinance indebtedness upon its maturity, such Client may be forced to sell its investments at times that 3650IM would not otherwise elect.

***Leverage through Securitizations.*** Clients that invest through a REIT or SubCo may (depending on the strategy) utilize warehouse credit facilities to finance a portion of the origination and acquisition of Target Loans until a sufficient quantity of Target Loans has been accumulated. Once a pool of Target Loans of sufficient size and diversity is accumulated, 3650IM refinances with Permanent Financing. Such Client can expect to issue Securitized Liabilities, which is different from the typical CMBS structure. There can be no assurance that such Client will be able to complete the issuance of Securitized Liabilities or other Permanent Financing and 3650IM reserves the right to utilize other types of Permanent Financing on behalf of such Client, including typical CMBS in which the REIT would acquire Related REMIC Securities.

A Client's issuance of Securitized Liabilities may involve creating a special purpose vehicle, contributing the applicable pool of Target Loans to the entity, and selling bonds issued by the entity on a non-recourse basis to purchasers (whom 3650IM would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools); however, a Client may engaged in the origination of Securitized Liabilities by contributing the loans of the REIT or its subsidiaries into a securitization being conducted by a third party. Such Client can expect to retain the equity in the entity owning the securitized pool of portfolio investments (and, pursuant to certain risk retention requirements, the Client will be required to retain at least 5.0% of the fair market value of the securities issued in the transactions). In connection with this strategy, such Client is subject to the risk that it will not be able to originate or acquire, during the period that its warehouse credit facilities are available, a sufficient amount of Target Loans to maximize the efficiency of a Permanent Financing. The Client also is subject to the risk that it will not be able to obtain warehouse credit facilities or will not be able to renew any warehouse credit facilities after they expire should the Client find it necessary to extend the warehouse credit facilities to allow more time to accumulate the necessary Target Loans for a Permanent Financing. In the event that such Client completes Permanent Financing in the form of Related REMIC Securities, the Client could contribute the applicable pool of Target Loans to a taxable REIT subsidiary, which will contribute the Target Loans to the REMIC and receive Related REMIC Securities in consideration for such contribution and pay a corporate income tax on any gains resulting from such transaction (however, other processes and structures could be implemented). Any CRE loans held in a REMIC in which such Client holds Related REMIC Securities that were contributed to the REMIC by a third party, will not be subject to 3650IM's complete investment process. If a Client is considering the acquisition of Related REMIC Securities in connection with a Permanent Financing, 3650 expects to utilize many of the same processes it would employ in connection with the origination of a Target Loan on all or substantially all of the CRE loans contributed to the REMIC by third parties and not by the Client. As a result, certain processes (such as communication with the borrower) will not be performed on these loans, and 3650IM may not perform these processes on all of the loans contributed by third parties.

Such a Client may not be able to complete securitization financings (via a REMIC conducted by an affiliate of 3650 or otherwise) on attractive terms or at all, and the inability to consummate securitizations of a Client's portfolio to finance its investments on a long-term basis could require

such Client to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect such Client's performance. Additionally, the securitization of a Client's portfolio might magnify its exposure to losses because the equity interest such Client retains in the issuing entity will be subordinate to the bonds issued to investors and such Client will, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the bonds experience any losses. The inability to securitize a Client's investments may hurt such Client's performance. At the same time, the securitization of a Client's investments might expose the Client to losses, as the residual investments in which the Client does not sell interests will tend to be riskier and more likely to generate losses.

### **Risks Associated with the Special Situation Opportunities Strategy.**

**Construction Loans.** On behalf of a Client, 3650IM invests in or originates construction loans. If the Client fails to fund its entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against the Client for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan. Other loan types may also include unfunded future obligations that could present similar risks. Also, construction loans are also subject to losses due to fraud, bankruptcies and special hazard losses not covered by standard hazard insurance.

**Bridge Loans.** Additionally, 3650IM invests on behalf of a Client in bridge loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in the construction or redevelopment of a property. Bridge loans generally provide temporary or "bridge" financing to a borrower pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt obligations. A borrower's use of bridge loans involves a risk that the borrower may be unable to locate Permanent Financing to replace the bridge loan, which may impair the borrower's perceived creditworthiness and ability to obtain Permanent Financing. In such event, the interest rate on such loans or the terms of such investments may not adequately reflect the risk associated with the position taken by the Client. In the event of a default on the loan, the Client bears the risk of loss of principal and non-payment of interest and losses to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the bridge loan. Additionally, in connection with a bridge loan, the borrower often has identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan which could result in losses to the Client. Also, bridge loans are also subject to losses due to fraud, bankruptcies and special hazard losses not covered by standard hazard insurance.

### **Additional Investment-Related Risks.**

In addition, 3650IM invests in various derivatives, including, without limitation, options, swaps and swaptions, for hedging. Investments may be made in U.S. and non-U.S. securities or instruments that trade on exchanges or over-the-counter or that are acquired in private placements

or otherwise. Investments may be made either directly or indirectly, including through private funds which make any or all of the types of investments described above. Both long and short positions may be taken. 3650IM may also utilize leverage for hedging or other strategies.

All of these investment types are highly speculative in nature, and there can be no assurance that the investment objectives will be achieved. Investors must be prepared to bear the risk of a total loss of their investment.

More detailed information about the types of investments that 3650IM may make on behalf of a Client is provided in the Operative Documents.

### **Cybersecurity.**

The information and technology systems used by 3650IM and key service providers to 3650IM and the Clients to carry out routine business operations may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, security breaches and usage errors by their respective professionals. Each Client and 3650IM is subject to risks associated with a breach in its cybersecurity. Although 3650IM has implemented various protections designed to manage risks relating to these types of events, if a cybersecurity breach occurs, a Client may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose 3650IM and the relevant Client to civil liability, as well as regulatory inquiry and/or action. In addition, Clients and/or investors could be exposed to additional losses as a result of unauthorized use of their personal information. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of 3650IM or the Clients and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information. Similar types of operational and technology risks are also present for many portfolio companies, which could have material adverse consequences for the Clients' investments.

### **Risk of Natural Disasters, Epidemics and Terrorist Attacks.**

Countries and regions in which Clients invest, where potential investigational, approved, licensed, or cleared products are manufactured, stored, used, distributed, studied in preclinical or clinical studies, or commercially marketed by companies in which Clients invest are located or operate, where 3650IM has offices or where Clients or 3650IM otherwise do business are susceptible to natural disasters (e.g., fire, flood, earthquake, storm and hurricane), epidemics/pandemics (including the COVID-19 pandemic) or other outbreaks of serious contagious diseases. The occurrence of a natural disaster or epidemic/pandemic could, directly or indirectly, adversely affect and severely depress consumer demand, reduce economic output and disrupt travel, business operations, and economies and financial markets of many countries (even beyond the site of the natural disaster or epidemic/pandemic) and could adversely affect Clients' investment program or 3650IM's ability to do business. In addition, terrorist attacks, or the fear of or the precautions taken in anticipation of such attacks, could, directly or indirectly, materially and adversely affect

certain industries in which Clients invest or could affect the countries and regions in which Clients invest, where 3650IM has offices or where Clients or 3650IM otherwise do business. Other acts of war (e.g., war, invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) and political turmoil could also have a material adverse impact on the financial condition of industries or countries in which Clients invest.

### **Financial Institution Risk/Distress Events.**

An investment in a Client is subject to the risk that a Client's banks, brokers, hedging counterparties, lenders or other custodians of some or all of the Client's assets (each, a "***Financial Institution***") fails to perform its obligations or experiences insolvency, closure, receivership or other financial distress or difficulty, similar to events that occurred in the United States banking sector 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, 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 Federal Deposit Insurance Corporation ("***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 3650IM to manage Client's and their investments, which could result in significant losses and unconsummated investment acquisitions and dispositions. Such losses have the potential to include Clients to pay fees and expenses in the event 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 Clients to acquire or dispose of investments at prices that 3650IM believes reflect the fair value of such investments and/or the inability of portfolio companies to make payroll, fulfill obligations and maintain operations. Although 3650IM 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.

Many Financial Institutions require, as a condition to using their services or otherwise, that 3650IM and/or Clients maintain all or a set amount or percentage of their respective accounts or assets with the custodian, which heightens the risks associated with a Distress Event with respect to such custodians. Although 3650IM seeks to do business with custodians that it believes are creditworthy and capable of fulfilling their respective obligations to Clients, 3650IM is under no obligation to use a minimum number of custodians with respect to any Client or to maintain account balances at or below the relevant insured amounts.

## **ITEM 9. DISCIPLINARY INFORMATION**

Not applicable.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### Broker-Dealer Registration.

3650IM is not a registered broker-dealer nor does it intend to register as a broker-dealer.

### Commodity Pool Operator.

3650IM is registered with the Commodity Futures Trading Commission as a commodity pool operator.

### Certain Affiliates.

Each of the General Partners and the Manager are registered as an investment adviser in reliance on the SEC registration of 3650IM.

Further, 3650IM is affiliated with the following entities:

- 3650 REIT Holding Company LLC (f/k/a Grass River Capital, LLC)
- Grass River Property, LLC (“**GRP**”)

GRP actively invests (primarily in fee simple) in CRE and engages in ground up development and value-add real estate repositioning projects in South Florida. Projects are executed in joint venture partnerships whose members range from family funds to large institutions. In addition to development and construction services, GRP CRE services capabilities include marketing and leasing and property management.

### Conflicts of Interest Related to Affiliated Service Providers.

Regarding the loans in which the Clients invest, 3650IM’s affiliated entities house certain business units that provide service functions as follows: Investment & Risk Management (“**IRM**”) assists with risk management; Capital Markets (“**CM**”) assists with originating loans designed to meet the criteria for Client investment, the trading, structuring and securitization of the loans; and Asset Management & Servicing (“**AMS**”) assists with underwriting and due diligence, asset and relationship management, loan servicing and surveillance, resolution and workout and data and document maintenance. Each of these business units housed within 3650IM’s affiliated entities receives (to the extent applicable and expressly provided for under the applicable Client’s operating agreements and other definitive documentation) a fee from the Clients for these services, which creates a conflict of interest for 3650IM.

In connection with a Client investment, 3650IM engages its affiliates or third parties to provide the services of property managers, asset managers, paying agents or other services as necessary, the costs of which are borne by the Client. Payment of any such fees will not cause a reduction of the investment advisory fees or similar fees. The fees that an affiliated service provider will receive from a Client are set forth in the Clients Operative Documents or have been approved by the investors in such Client (directly or through a committee, as applicable).

As noted under Item 5 above, 3650IM believes that the nature and quality of the services provided by its affiliate to its Clients are superior to or at least as good as comparable services provided by unrelated third-party service providers. The fees that an affiliated service provider will receive from a Client are set forth in the Clients Operative Documents or have been approved by the investors in such Client (directly or through a committee, as applicable).

In addition to their roles as Managing Partners of 3650IM, Messrs. Cobb, Kennedy and Roth serve in various capacities with the CM, AMS and IRM business units described above and will perform certain services. These activities may reduce the amount of time they are able to spend directly on 3650IM's activities.

Because 3650IM and its affiliates are under common control, retention of an affiliate to provide services to a Client creates conflicts of interest regarding both fees and services. For example, 3650IM has an incentive to favor the engagement of its affiliates over third-party service providers because such engagement would generate fees for these affiliates, which would benefit these affiliates. Theoretically, 3650IM could engage affiliates on behalf of Clients even if the affiliated service provider demonstrated poor performance or an inability to provide the services for which they had been retained. Also, 3650IM has an incentive to pursue unsuitable or unnecessary investments on behalf of a Client in order to generate these origination and servicing fees for its affiliates. In addition, conflicts could arise if an affiliate breaches its servicing agreement, or otherwise fails to perform its responsibilities adequately, resulting in harm or damages to the Client. In such circumstances with third-party servicers, the Client would be free to seek such recourse as is appropriate, up to and including litigation. Because of the affiliation, however, 3650IM would have a potential conflict in determining what action to take against its affiliate. 3650IM will seek to resolve all such conflicts using their best judgment considering all factors they deem relevant, including their obligation to act in the best interests of the Clients.

3650IM seeks to mitigate the conflicts and potential conflicts described above by conducting a number of activities to address, monitor and manage such conflicts. For example, 3650IM or its applicable affiliate (subject to the direction of 3650IM and/or the IC) reviews each potential loan before the loan documents are distributed and the due diligence commences. Once the loan documents and due diligence is complete, 3650IM determines whether to accept the loan on behalf of a Client as an investment. Additionally, the General Counsel and Chief Compliance Officer (the "**General Counsel**") is involved in oversight, review and approval processes regarding these arrangements and fees.

For any fee contract/arrangement between a JV or a REIT or a SubCo and an affiliate of 3650IM that differs materially from the terms outlined above and/or as specified in the relevant Operative Documents, 3650IM shall seek approval in accordance with the applicable JV's consent rights which in some cases requires management committee approval of fee contract/arrangement for services between the JV and an affiliate of 3650IM.

Service arrangements between a Client and a 3650IM affiliate must be pursuant to terms documented in written agreements that describe the services to be provided and the fees to be assessed. As previously noted, the JVs retain certain consent rights regarding service providers affiliated with 3650IM.



## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics.**

3650IM has adopted a Code of Ethics (the “**Code**”) which includes, among other policies, a Personal Trading Policy and an Insider Trading Policy, to establish principles of conduct and to assist in detecting, managing and to the extent possible avoiding conflicts of interest, which may arise between employees and Clients as a result of personal investing activities. The Code is designed with the goal of ensuring, among other things, that employees conduct their investing activities (both for their personal accounts and for Clients) in accordance with applicable law, including the federal securities laws and the rules promulgated thereunder, and in a manner where Clients’ interests are placed first and foremost. All employees are responsible for upholding 3650IM’s fundamental principles of openness, integrity, honesty and trust and must conduct their activities with due skill, care, diligence, prudence and fairness.

To facilitate the personal trading reporting requirements of the Code, 3650IM has a reporting requirement and approval process. These reporting requirements apply to all “access persons” of 3650IM (as defined in Rule 204A-1 of the Advisers Act) as further described in the Code. Furthermore, the reporting requirements apply to any account in which an access person or other person covered by the requirements has a direct or indirect beneficial, economic or financial interest or over which an access person or other person covered by the reporting requirements has investment discretion or direct or indirect influence or control.

3650IM’s Code also imposes prohibitions on employee trades/investing including: (1) improper trades/investing based on inside information; (2) trades/investing intended to manipulate the market; (3) trades/investing in securities on 3650IM’s restricted list; and (4) trades in new issues and limited offerings.

As part of the Code, 3650IM has established an Insider Trading Policy. 3650IM’s Insider Trading Policy includes specific requirements and prohibitions regarding the possession of material non-public information (“**MNPI**”) in order to avoid situations that may violate applicable regulatory statutes or create an appearance of impropriety.

3650IM’s Insider Trading Policy strictly forbids any employee from conducting trades, either personally or on behalf of others, including Clients, while improperly in possession of MNPI that may affect the security to be traded and from improperly communicating MNPI to others.

**A copy of the Code will be provided to any Client or investor or prospective Client or investor upon request.**

### **Recommendations of Securities in which 3650IM or a Related Person has Some Financial Interest.**

3650IM does not anticipate recommending securities to Clients in which 3650IM or a related person owns a material financial interest.

### **Trading by 3650IM or its Employees or Affiliates.**

3650IM, its employees and affiliates may engage in a broad spectrum of activities, including direct (or principal) investment activities for their own accounts and investment advisory activities that, with respect to any particular Client, are independent from, and may from time to time conflict with, overlap with or compete with, the investment activities of other Clients. 3650IM does not anticipate, however, that there will be any overlap in the investment opportunities that are appropriate for a Client and the investment opportunities that are appropriate for 3650IM's employees or affiliates. All investment opportunities appropriate for the Clients' strategies (based on the investment parameters set forth in each such Client's definitive documentation with 3650IM) will be allocated 100% to the Clients. Any excess capacity, however, may be allocated to co-investors or others, as described above.

### **Cross Trades and Principal Trades.**

3650IM may, to the extent permitted under applicable law and subject to any limitations set forth in such Clients' Operative Documents, effect cross trades between Client accounts, including Client accounts in which 3650IM or its personnel may have a proprietary investment. 3650IM will undertake cross trades only when it deems the trade to be in the best interest of each participating Client (e.g., for rebalancing or tax purposes, liquidity purposes or to reduce transaction costs that may arise in an open market transaction). Further, any such cross trades will generally be valued and priced at fair value or as otherwise agreed between the participating Clients and will be conducted on terms no less favorable to each Client involved in the transaction than would be the case in a transaction with an independent third party and in accordance with any fiduciary obligation under applicable law, in each case subject to revision subject to the consent of each applicable Client. When effecting such trades 3650IM may have conflicting loyalties and responsibilities.

Although 3650IM does not expect to engage in principal transactions, to the extent any transaction qualifies as a "principal transaction" under the Advisers Act (*i.e.*, where 3650IM or an affiliate is acting as principal for its own account in a securities transaction with a Client), 3650IM will implement policies and procedures designed to comply with the provisions of Section 206(3) of the Advisers Act.

### **Allocating Investment Opportunities among Clients and Related Conflicts of Interest.**

3650IM recognizes its duty to treat each Client in a manner it believes to be fair and equitable over time. Where an investment may be appropriate for more than one Client, 3650IM and its respective affiliates intend to allocate investment opportunities among such Clients in a manner that, in their judgment, they believe to be appropriate and equitable in light of the investment objectives, liquidity, diversification and other similar factors applicable to each Client. 3650IM currently advises Clients that have overlapping strategies and may manage other Clients in the future, the strategies of which overlap with one another. This overlap in Client strategies may lead to fewer, and less attractive, investment opportunities being made available to Clients than would have been the case had 3650IM and its employees been restricted from pursuing investment programs on behalf of other Clients.

Additionally, if an investment opportunity that is appropriate for more than one Client is available in limited quantities, 3650IM may have an incentive to allocate such investment opportunity to one Client rather than other Clients. As noted under Item 6, such an incentive may arise if the economic interests of 3650IM and its employees in certain of these Clients, when combined with their rights to management fees and/or incentive-based compensation or other fees, are significantly larger than their direct and indirect economic interests in other Clients.

In making such allocation decisions, 3650IM and its respective affiliates generally will take into account the following factors: (1) the investment objectives of the relevant Clients; (2) the source of the investment opportunity; (3) any exclusive rights to investment opportunities that may have been granted to particular Clients; (4) the expected duration of the investment, in light of each Clients' investment objectives and policies (including diversification policies); (5) the amount of available capital; (6) the size of the investment opportunity; (7) regulatory and tax considerations; (8) the degree of risk arising from an investment; (9) the expected investment return; (10) relative liquidity; (11) likelihood of current income; and (12) such other factors as 3650IM and its affiliates deem to be appropriate. One or more of these allocation considerations may be a contributing factor to cause 3650IM to allocate an investment opportunity other than on a *pro rata* basis.

Single-asset-single-borrower securitizations B-piece purchases or b-note purchases/originations are generally not allocated on a pro rata basis. The allocation methodology is set forth in 3650IM allocation policy which is disclosed to investors in Clients.

These factors provide substantial discretion to 3650IM in allocating investment opportunities. Further, two or more Clients may hold an investment for which there is extremely limited, or no, liquidity or that is subject to legal or other restrictions on transfer. In a situation where 3650IM is limited in its ability to dispose of an investment, 3650IM may consider the factors described above in allocating the sale of such an investment.

Please see Item 6 and Item 12 (under the heading "*Trade Allocation and Aggregation*") for further information related to allocating investment opportunities.

### **Potential Conflicts Due to Overlapping Client Investments and Other Conflicts of Interest.**

If, in the future, Clients hold the same investment, the differing investment objectives of such Clients, as well as other factors applicable to the specific situation, may result in a determination to dispose of, or retain, all or a portion of such investment on behalf of a Client at different times as such investment or portion thereof is being disposed of, or retained, by other Clients. In addition, particularly with respect to illiquid or private investments, conflicts of interest can arise when disposing of a particular investment that would be beneficial for one Client while retaining such investment would be beneficial for another Client. 3650IM may also invest in securities on behalf of one Client that may differ from investments made on behalf of other Clients, even though the investment objectives of other Clients may be similar. Moreover, 3650IM, its Clients, or its employees may make investments or engage in other activities that express inconsistent views with respect to an investment, a particular security or relevant market conditions.

Also, certain actual and potential conflicts of interest may arise from the fact that: (1) Clients may acquire investments representing different parts of the capital structure of issuers and, in

connection therewith, may take actions that have an adverse effect on another Client's investments;(2) 3650IM and its affiliates and their respective directors, officers, agents and affiliates and their employees may serve on creditor or equity committees or advise companies subject to bankruptcy or insolvency proceedings or otherwise be engaged in financial restructuring activities in a variety of capacities; and (3) 3650IM may provide co-investment opportunities to any persons in its sole discretion, including to some or all of the investors in a Client, persons with whom it has strategic relationships, lenders and its affiliates.

In addition, 3650IM expects to make other business decisions on behalf of certain Clients relating to investments independently of the manner in which it approaches a similar or even the same investment held by other Clients. Consequently, 3650IM, on behalf of certain Clients, may choose not to hedge certain risks that other Client's hedge, or certain Clients may be exposed to risks of financing on an investment when other Clients are not. Further, in some instances, 3650IM may choose to coordinate its Clients' activities (such as timing dispositions in an orderly way in order to avoid affecting the value of an investment in an unduly volatile manner) with respect to investments held by more than one Client, when it would theoretically be possible for 3650IM to act unilaterally with respect to a particular Client's holdings in such investment. Such coordination could have the effect of lowering returns for a particular Client with respect to an investment relative to what might have been achieved absent such coordination.

Should a particular Client invest in entities or assets in which other Clients hold an investment, the investment by such Client could be viewed, especially in hindsight, to have been made on a non-arm's-length basis and could have an effect (either positive or negative) on the market price of the initial investment.

See Item 10 above for additional information regarding conflicts of interest.

## **ITEM 12. BROKERAGE PRACTICES**

Due to the nature of 3650IM's advisory business, 3650IM does not typically use brokers to effect securities transactions on behalf of its Clients. However, to the extent any such transaction is effected, 3650IM seeks the best execution of orders, as described below.

### **Selection of Broker-Dealers.**

Each Client pays its own brokerage commissions and other transaction costs. Neither 3650IM nor any of its affiliates receive any commissions generated by a Client's trading activities.

In selecting an appropriate broker-dealer to effect a Client trade, 3650IM seeks to obtain best execution, taking into consideration a broker-dealer's execution capabilities and expertise to execute transactions for Client accounts, in addition to the price of the security offered by the broker-dealer. Considerations include: (1) the broker-dealer's full range and quality of services, including, among other things, its facilities, reliability and financial responsibility, reputation, execution capabilities, ability to execute difficult trades (possible market impact, size of the order and market liquidity); (2) special execution and block positioning capabilities; (3) commitment of capital; (4) access to new issues; (5) nature and frequency of sales coverage; (6) depth of services provided, including economic or political coverage, arbitrage and option operations; (7) access to markets; (8) confidentiality; (9) commission rates; (10) responsiveness to 3650IM; (11) back office

and processing; (12) custodial services; (13) the value of brokerage and research products and services provided to 3650IM (e.g., research ideas, analysis and investment strategies); and (14) the success of prior research ideas.

3650IM will not adhere to any rigid formulas in selecting broker-dealers, but weighs a combination of the preceding factors. 3650IM will, in its sole discretion, select broker-dealers to execute Client transactions based on a totality of the circumstances, including any or all of the factors outlined above. This means that a broker-dealer offering the most favorable commission or spread may not be selected to execute a particular transaction. The commissions and other transaction costs (which may include dealer markups or markdowns) charged to a Client by a broker-dealer in the foregoing circumstances may be higher than those charged by other broker-dealers that may not offer such products or services. In selecting broker-dealers to execute transactions, 3650IM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It will not be 3650IM's practice to negotiate "execution only" commission rates; thus, Clients may be deemed to be paying for other services, including research products and services, provided by the broker which are included in the commission rate.

Clients do not direct brokerage.

#### **Soft Dollar Usage.**

3650IM does not currently have any soft dollar arrangements and given the nature of its advisory business, does not expect to make frequent use of broker-dealers.

To the extent 3650IM uses broker-dealers, however, it may use full-service broker-dealers that may provide, from time to time (without being requested to do so), research or other products or services to most or all of their customers, including 3650IM. 3650IM may take advantage of the research or other products or services provided rather than producing or paying for them from another provider. In these situations, 3650IM receives a benefit because it does not have to pay for the research or other products or services. Even in the absence of soft dollar arrangements, 3650IM may have an incentive to utilize broker-dealers based on benefits that it receives from the broker-dealers, rather than the interests of a Client in receiving the most favorable execution. However, since the research or other products or services provided are not material in nature and quantity and may be provided, from time to time, by several broker-dealers, 3650IM's receipt of such research or other products or services does not have a material effect on its selection of broker-dealers. Furthermore, 3650IM addresses any potential conflicts of interest through its best execution policies and procedures.

In the future, 3650IM may, in recognition of the value of the brokerage and research services provided by the broker-dealer, enter into a soft dollar arrangement and pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transactions) for effecting Client account transactions which may be in excess of that which another broker-dealer might have charged for effecting the transaction. 3650IM will effect such transactions, and receive such brokerage and research services, only to the extent that, based on 3650IM's good faith determination, the amount of commission is reasonable in relation to the value of the research and brokerage products or services received, viewed in terms of either the specific transaction or 3650IM's overall responsibility to its Clients. 3650IM will enter into such

soft dollar arrangements only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934.

### **Trade Allocation and Aggregation.**

As noted above, 3650IM does not typically use broker-dealers to effect securities transactions. To the extent 3650IM engages in such trading, if 3650IM determines that the purchase or sale of the same security is in the best interest of more than one Client account, 3650IM may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client account will typically receive the average price with transaction costs allocated *pro rata* based on the size of each Client account's participation in the order (or allocation in the event of a partial fill) as determined by 3650IM. In the event of a partial fill, allocations generally will be made *pro rata* based on the initial order but may be modified on a basis that 3650IM deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations.

### **Trade Errors.**

As noted above, 3650IM does not typically effect equities transactions. To the extent 3650IM engages in such trading, on occasion, trades may be executed on behalf of Clients that are inconsistent with the trading instructions of 3650IM or are the result of some other error in the trading process. Such trades are known as “**Trade Errors**” and are deemed to have occurred when, as a result of such inconsistency or other error in process: (1) the wrong instrument is purchased or sold; (2) the wrong quantity of an instrument is purchased or sold; (3) a purchase is made instead of a sale or a sale is made instead of a purchase; or (4) an instrument is purchased or sold in violation of regulatory or contractual obligations. Trade Errors do not include scenarios that do not result in a trade. Trade Errors frequently result in losses but may, occasionally, result in gains. 3650IM will endeavor to detect Trade Errors before settlement and correct and/or mitigate them in an expeditious manner. To the extent a Trade Error is caused by a third party, such as a broker-dealer, 3650IM may seek to recover any losses associated with the Trade Error from such third party, but may choose not to do so in its discretion, and 3650IM will not be liable for such losses. Unless a Trade Error has resulted from the gross negligence, fraud, bad faith or willful misconduct of 3650IM or its employees, any losses will be borne by the Client. Any gains resulting from a Trade Error will be for the benefit of the Client. 3650IM will determine in its sole discretion whether any Trade Error has resulted from the gross negligence, fraud, bad faith or willful misconduct on its part. Investors should be aware that, in making such determinations, 3650IM will have a conflict of interest.

## **ITEM 13. REVIEW OF ACCOUNTS**

3650IM performs quarterly reviews of each of its Client's respective accounts. Such reviews are conducted by 3650IM personnel, including its General Counsel.

3650IM prepares periodic reports/letters to provide to its Clients and/or Clients' underlying investors, detailing the performance and composition of such Client's investments. As a general matter, such reports/letters are prepared and issued quarterly.

Generally, on an annual basis, 3650IM will prepare (or cause to be prepared) prepare and email/mail to each investor, together with the report prepared by the fund's accountants, a financial report setting forth a balance sheet of each fund and a statement of its net profit or net loss, a statement of each investor's capital account and the manner of its calculation. After the end of each fiscal year, 3650IM will furnish or cause to be furnished to each investor certain tax information for tax return preparation purposes.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

3650IM does not accept any economic benefit from third parties for providing investment advisory services to Clients.

3650 has in the past and may in the future enter into arrangements with placement agents providing for payments to such agents of a one-time or ongoing fee. If an investor is introduced to 3650IM through a placement agent, the arrangement, if any, with such placement agent will be disclosed to the investor prior to any investment by such investor, to the extent required by Rule 206(4)-1 under the Advisers Act.

3650IM may have an agreement with one or more placement agents to introduce the Firm to potential investors.

#### **ITEM 15. CUSTODY**

3650IM is deemed to have "custody" within the meaning of Rule 206(4)-2 under the Advisers Act (the "**Custody Rule**") with respect to the assets of our Clients. 3650IM complies with the Custody Rule by preparing and delivering audited financial statements annually to the investors in such vehicles in accordance with what is commonly referenced as the Custody Rule's "private fund audit exemption."

#### **ITEM 16. INVESTMENT DISCRETION**

In general, Clients have provided 3650IM with discretionary investment authority. Certain Clients have retained 3650IM to provide non-discretionary advice or provide advice subject to investor approval prior to making certain investments on their behalf. The basis for 3650IM's authority, discretionary or non-discretionary, regarding Clients and limitations to that authority will be found in the Client's Operative Documents.

For a complete discussion of our advisory business and the services we provide to our Clients, please see Item 4, above

#### **ITEM 17. VOTING CLIENT SECURITIES**

3650IM accepts the authority to vote client securities on behalf of certain Clients, although the JVs retain consent rights regarding certain decisions as more fully described in the relevant Operative Documents.

In addition to proxy solicitation in connection with equity securities of traditional operating companies, "voting client securities" is deemed to include any consent requested in matters such

as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities. 3650IM has adopted policies and procedures related to voting client securities on behalf of its Clients. When 3650IM accepts authority to vote client securities, 3650IM's general policy is to vote proposals, as well as amendments, consents or resolutions relating to client securities (including interests in private investment funds, if any) in a manner that serves the best interests of its Client. In determining how to vote such securities, 3650IM may take into account factors such as: (1) the impact on the value of the investments; (2) the anticipated associated costs and benefits; (3) the continued or increased availability of Client information; and (4) industry and business practices. In some circumstances, 3650IM will refrain from voting client securities where 3650IM believes, among other potential reasons, that voting would be inappropriate, taking into consideration the cost of voting the securities, the anticipated benefit to the Client, whether the Client continues to hold the securities on the voting date, or where 3650IM believes that resolution is not relevant to the value of the investment.

It is possible for conflicts of interest to arise in the context of 3650IM's voting of client securities. However, if an actual conflict of interest with respect to voting arises, the General Counsel, together with external legal counsel, if necessary, would be involved in the process for the particular vote to help manage and mitigate any such conflicts of interest.

Clients and investors can obtain a copy of 3650IM's policies and procedures regarding the voting of client securities and information as to how 3650IM votes Client securities upon request.

## **ITEM 18. FINANCIAL INFORMATION**

Not applicable.