



OREC INVESTMENT MANAGEMENT, LLC

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This brochure (the “Brochure”) provides information about the qualifications and business practices of OREC Investment Management, LLC, a Delaware limited liability company (“OREC”). If you have any questions about the contents of this Brochure, please contact us at 614-857-1569. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about OREC is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure, dated November 12, 2019, is OREC's initial filing.

You may request a current copy of OREC's Brochure free of charge at 614-857-1569 or Kevin.Mainelli@orixrealestatecapital.com.

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Item 4 – Advisory Business

This Brochure has been prepared in connection with OREC’s initial registration with the SEC. Currently, OREC does not advise any Investment Advisory Accounts and does not have any regulatory assets under management. This Brochure has been drafted to describe OREC’s business as it is expected to operate on or after the effective date of its SEC registration. Registration does not imply a certain level of skill or training.

OREC’s Business

OREC, founded in 2019, provides discretionary and non-discretionary portfolio management and advisory services to U.S. and non-U.S. pooled investment vehicles (“OREC Funds”), separately managed accounts (“Managed Accounts”), public companies or corporations that are traded on a national securities exchange (“Public Company Clients”), high net worth individuals, insurance companies, banks, thrift institutions, pension plans, employee benefit plans, endowments, foundations, trusts and estates, public and private corporations, partnerships, and other business entities (collectively, “Investment Advisory Accounts”). OREC’s current ownership structure is as follows:

- ORIX Real Estate Capital Holdings, LLC (“ORIX RECH”) owns 100% of OREC;
- OREC Holdings LLC (“OREC Holdings”) is the sole owner of ORIX RECH;
- ORIX Commercial Mortgage Servicing Holdings, LLC (“OCMS”) is the sole owner of OREC Holdings;
- ORIX Equity Holdings, LLC (“ORIX EH”) is the sole owner of OCMS;
- HLHZ Holdings Company, LLC (“HLHZ”) is the sole owner of ORIX EH;
- FRAM Holdings, LLC (“FRAM”) is the sole owner of HLHZ;
- ORIX Opco Holdings, LLC (“Opco”) is the sole owner of FRAM;
- ORIX Capital Markets, LLC (“ORIX CM”) is the sole owner of Opco;
- ORIX Corporation USA (“ORIX USA”) is the sole owner of ORIX CM; and
- ORIX Corporation (NYSE: IX; TSE: 8591), a public company, owns 100% of ORIX USA.

Advisory Services

OREC serves as investment adviser to the Investment Advisory Accounts. OREC generally tailors its advisory services to the individual needs of its clients in Managed Accounts, and manages each OREC Fund in accordance with its respective investment strategy. OREC provides investment

advisory services to Public Company Clients subject to the oversight of their respective boards of directors, pursuant to management agreements, and in accordance with the investment objectives, strategies and guidelines approved by the applicable board of directors.

The advisory and management services that OREC provides to Investment Advisory Accounts generally include:

- general management and administrative services and portfolio management services, including managing day-to-day operations;
- the evaluation and selection of investments;
- the acquisition, management, and disposition of assets spanning the equity and real estate debt product spectrum, including, but not limited to, whole loans, participation interests, real estate structured products, subordinated assets, leveraged and unleveraged bonds, other forms of real estate securities and real estate-related corporate loans;
- the valuation of assets;
- ongoing asset management and related reporting;
- the development of proactive strategies to resolve operational, financial and other performance issues;
- the coordination and management of operations of any joint venture or co-investment interests;
- the provision of executive and administrative personnel;
- the communication, on behalf of any applicable Investment Advisory Account, with the holders of any such Investment Advisory Account's equity or debt securities;
- advising Investment Advisory Accounts as to such Investment Advisory Account's capital structure and capital raising efforts; and
- the generation of income and capital appreciation through asset selection, credit re-underwriting, capital structure relative value, and rate and credit hedging of investments spanning the real estate debt structure.

Investment Advisory Accounts generally invest in real estate debt or subordinated assets and both public and private real estate-related instruments, including commercial real estate mortgages and other debt obligations or capital products that fund real estate investments, securitized real estate investments; and other forms of real estate securities. Investment Advisory Accounts' investments generally take the form of, or include, without limitation:

- the formation of joint ventures or co-investment arrangements with investors for investments in real estate debt-related and subordinated financing assets (including the acquisition of debt, preferred equity and equity interests in joint ventures);
- the acquisition of securities in entities that own or invest in one or more real estate debt-related, subordinated financing, or equity assets;
- the sponsorship of or investment in real estate investment trusts (“REITs”), pooled investment funds, or other real estate related companies (including management, financing, development, or other operating companies);
- the issuance or acquisition of subordinated financing assets, mortgage loans, and other real estate backed indebtedness, or participation in, or ownership of, securities backed by such indebtedness;
- investment in real estate related securities, some of which are relatively illiquid and credit sensitive, including rated and unrated interests in mortgage-backed securities or other structured products collateralized by healthcare, multifamily and commercial real estate loans, interests in individual loans secured by healthcare, multifamily and commercial real estate, including subordinated interests, mezzanine loans and other real estate-related securities, securities resulting from commercial real estate securitizations, and any other real estate debt-related instruments; and
- the acquisition of limited partnership (or equivalent) interests in pooled investment vehicles.

OREC does not participate in any wrap fee programs.

Item 5 – Fees and Compensation

OREC and its affiliates typically receive compensation from Investment Advisory Accounts calculated based on (i) a percentage of assets, capital managed, or, in the case of a Public Company Client, stockholders’ equity, and (ii) performance achieved on behalf of an Investment Advisory Account, which typically include one or more of the following types of compensation:

- management fees of up to 1.50% per annum of (i) the committed or invested capital of an Investment Advisory Account, or (ii) the average monthly balance, fair market value, gross asset value, or net asset value of investments made by an Investment Advisory Account (which may be inclusive or exclusive of leverage);
- carried interest or incentive allocations of up to 20% of profits derived from the disposition of an Investment Advisory Account’s assets (following the payment of a targeted internal rate of return and net invested capital); and
- acquisition fees, disposition fees, commitment fees, workout fees and/or restructuring fees of up to 1% of the purchase price of an Investment Advisory Account’s assets.

The performance-based compensation (carried interest and incentive fees) OREC receives from Investment Advisory Accounts will be generally based on realized proceeds in excess of a targeted internal rate of return, capital committed, earnings exceeding a defined target or net invested capital. OREC does not receive performance-based compensation on a regularly scheduled basis; instead, the amount, structure and timing of performance-based compensation received by OREC varies based on the type of Investment Advisory Account and/or the type of asset managed.

Advisory Accounts and/or companies in which Investment Advisory Accounts have an interest may pay OREC and/or its affiliates servicing and/or special servicing fees in connection with the provision of certain administrative or other services. In addition, in connection with certain investments of an Investment Advisory Account, OREC's affiliates may be retained to provide certain ongoing asset management, loan origination, servicing, and other real estate-related services and be paid a fee for doing so. Affiliates of OREC will also be retained to perform certain administration services and certain back office services for Investment Advisory Accounts and will also provide such services to OREC. These arrangements create a conflict of interest, as OREC will be incentivized to choose its affiliates to provide these services rather than an unrelated third party, and OREC and its affiliates have an interest in obtaining fees and other amounts for such services which are favorable to OREC. OREC has policies and procedures in place to address these conflicts. Please see Item 10—Other Financial Industry Activities and Affiliations.

From time to time, OREC may invest Investment Advisory Account assets in mutual fund shares or other investment vehicles managed by unaffiliated third parties. In these instances, Investment Advisory Accounts pay the additional management fee charged by the unaffiliated mutual fund or other investment vehicle, as applicable. To the extent OREC invests an Investment Advisory Account into another vehicle managed by OREC, OREC will not charge such client a double fee on such investment.

The amount, structure and type of fees paid by an Investment Advisory Account may vary and may be negotiated. Investment Advisory Accounts may pay fees that are different from, more, or less than the fees (or types of fees) set forth in this Brochure, or more or less than similar Investment Advisory Accounts or Investment Advisory Accounts invested in similar strategies. OREC has discretion to waive or reduce management fees and carried interest allocations in certain situations for certain investors including, without limitation, employees and “friends and family” investors (see discussion of side letters in Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading). Management fees and incentive and carried interest allocations for co-investment vehicles will be separately negotiated in each case.

Detailed information regarding the fees and expenses charged to Investment Advisory Accounts will be provided in the respective governing documents or management agreement of each Investment Advisory Account.

OREC generally deducts all asset-based compensation automatically in accordance with each Investment Advisory Account's governing documents or management agreement, but OREC may also bill Investment Advisory Accounts directly for any fees incurred or agreed-upon expenses

that are subject to reimbursement. Investment Advisory Accounts typically pay these fees monthly or quarterly, in arrears.

Different Investment Advisory Accounts may have different termination rights with respect to OREC's advisory services. For example, with regard to certain OREC Funds, upon a vote of a majority of such OREC Fund's members, partners or shareholders, OREC's services will be able to be terminated either (i) upon written notice for any reason or (ii) for cause upon written notice (subject to certain limitations). With regard to certain Managed Accounts, OREC and the beneficial owner(s) of such Managed Account will generally have the right to terminate services with notice. In many instances, if an agreement is terminated (other than at a previously specified period), fees will be prorated to the termination of the agreement and OREC may be entitled to receive fees and expenses incurred through the date of termination. In other instances, OREC may agree with an Investment Advisory Account that, upon termination of the advisory agreement, OREC will continue to receive fees on invested assets until their disposition.

In connection with OREC's advisory services, Investment Advisory Accounts will bear all of their own expenses (ordinary and extraordinary) which may include, without limitation:

- organizational expenses;
- fees, costs and expenses directly related to the acquisition, holding, financing, refinancing and sale or other disposition of Investment Advisory Account investments, and the evaluation of potential investments regardless of whether the potential investments are made;
- any expenses related to making temporary investments and any interest expenses;
- expenses of any administrators, custodians, counsel, accountants (including the audit and certification fees and costs of printing and distributing reports to an OREC Fund's investors), proxy solicitors, brokers, printers, rating agencies, third party advisors, independent contractors, consultants, managers and transfer agents;
- fees, costs and expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of an Investment Advisory Account's securities;
- fees, costs and expenses relating to communications to holders of equity or debt securities of Public Company Clients;
- any insurance, indemnity, or litigation expense;
- out-of-pocket expenses of an OREC Fund's investor advisory committee;
- certain taxes;

- any fees or other governmental charges levied against an Investment Advisory Account;
- rent and other fees relating to office(s), utilities, furniture, equipment and other office overhead expenses required for Investment Advisory Accounts' operations;
- compensation expenses paid to corporate finance, tax, accounting, investor relations and marketing, internal audit, legal, risk management, operations, compliance and other non-investment personnel; and
- expenses for transactions not completed, including amounts payable to third parties and all fees and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, and any deposits or draw-down payments that are forfeited in connection with unconsummated transactions.

Investment Advisory Accounts, and consequently investors in Investment Advisory Accounts, will also bear all of their investment-related expenses, such as:

- proxy expenses;
- topping fees;
- interest and commitment fees on loans and debit balances;
- custodial fees;
- break-up fees;
- brokerage commissions;
- travel expenses related to research;
- underwriting fees;
- research fees and materials (including online news and quotation services);
- syndication fees;
- costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific transactions;
- bank charges; and
- other ordinary miscellaneous research expenses.

OREC allocates the expenses among the applicable Investment Advisory Accounts in accordance with such Investment Advisory Account's underlying management agreement and in a fair and

reasonable manner. Because OREC renders advice to OREC Funds, Managed Accounts, and Public Company Clients, and makes investments for these Investment Advisory Accounts on a negotiated basis, opportunities for trade executions are less common than, for example, accounts that trade primarily in public equities. When applicable, however, Investment Advisory Accounts will pay brokerage fees. For more information on brokerage transactions and costs, please see Item 12—Brokerage Practices.

The assets of certain Investment Advisory Accounts may be invested in joint ventures or platforms with third parties. In addition, Investment Advisory Accounts may enter into other arrangements with third parties to facilitate the sourcing, development, and management of investments made by Investment Advisory Accounts. Through these joint ventures, platforms, and other arrangements, investors in an applicable Investment Advisory Account will likely bear a pro rata portion of the fees and expenses of the joint venture, platform, or other arrangement, including fees or other performance compensation paid to the applicable third party, in addition to the management fee and performance compensation paid to OREC by Investment Advisory Accounts.

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

Performance-Based Fees

As described in Item 5—Fees and Compensation, certain Investment Advisory Accounts will be subject to performance-based fees. To the extent applicable, investors in Investment Advisory Accounts that are subject to performance-based fees will be required to satisfy the eligibility criteria of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). As set forth in Item 5—Fees and Compensation, performance-based fees will generally be up to 20% of profits derived from the disposition of an Investment Advisory Account’s assets (following the payment of a targeted internal rate of return and net invested capital).

OREC’s (or its affiliate’s) receipt of performance-based fees will incentivize OREC to make investments that are riskier or more speculative than OREC would make if OREC (or its affiliate) did not receive performance-based fees.

Due to the different fee arrangements in place for Investment Advisory Accounts, OREC will have an incentive to favor Investment Advisory Accounts that pay performance-based fees over Investment Advisory Accounts that pay only asset-based fees. This incentive could, for example, affect OREC’s decision to effect transactions for some Investment Advisory Accounts and not for others if OREC believes that the transaction will be profitable (or to allocate a greater portion of a limited investment opportunity to those Investment Advisory Accounts). To address these conflicts, OREC has adopted policies and procedures that seek to provide that investment decisions are made without consideration of its financial interests, and instead are made in accordance with OREC’s fiduciary duty to all Investment Advisory Accounts.

In addition, OREC (or its affiliates) will compete with Investment Advisory Accounts for investment opportunities, which creates certain conflicts of interest. See Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

Item 7 – Types of Clients

OREC offers advisory services to the following types of U.S. and non-U.S. clients:

- OREC Funds (which may be organized as domestic or foreign partnerships, corporate or other incorporated or unincorporated entities);
- Managed Accounts;
- Public Company Clients;
- high net worth individuals;
- insurance companies;
- banks;
- thrift institutions;
- pension plans;
- employee benefit plans;
- endowments;
- foundations;
- trusts and estates;
- public and private corporations;
- money managers;
- partnerships; and
- other business entities.

The minimum account size that OREC accepts will vary based upon the investment strategy. Investors that directly invest in OREC Funds are generally subject to minimum investment amounts as described in the OREC Funds' offering documents. Those minimum investment amounts for OREC Fund investors may be modified, depending on the investor relationship and in accordance with the OREC Fund documents.

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

The following is a summary of (i) the strategies and methods OREC uses in formulating advice or managing assets (and their material risks) and (ii) the material risks associated with the types of investments that OREC primarily recommends to its clients. OREC does not recommend any particular type of product or security; rather, OREC recommends securities and other instruments based on the investment objectives and strategies of the Investment Advisory Account. Clients and prospective clients should refer to a separate disclosure document that the client has or will receive that sets out a more detailed explanation of the material risks of investment strategies or methods of analysis that are or will be used to manage the client's account.

The investment strategies employed by OREC subject an Investment Advisory Account to various risks that an investor should be prepared to bear, including the loss of some or all of its investment. Investing in any Investment Advisory Account involves the risk that the Investment Advisory Account may not achieve its investment objective. An Investment Advisory Account's value may

vary based on credit performance, market fluctuations caused by such factors as economic and political developments, changes in interest rates, and perceived trends in asset prices.

OREC, on behalf of Investment Advisory Accounts, invests in various classes of real estate-related debt and subordinated products. These investments can be made directly or through the use of limited partner or membership interests in joint venture entities. OREC varies the investment programs within the real estate capital sector according to Investment Advisory Accounts' investment guidelines, mandates, policies or needs. Among all Investment Advisory Accounts, OREC may engage in any combination of the following:

- investing in mezzanine, subordinated and junior assets (for cashflowing, low to non-cashflowing and/or construction assets);
- investing in corporate debt;
- investing in sub-performing and non-performing loans;
- investing in multifamily, healthcare and commercial mortgages;
- investing in construction loans;
- investing in preferred equity;
- investing in commercial mortgage-backed securities ("CMBS") including unrated and/or non-investment grade tranches, collateralized loan obligations ("CLO"), individual loans secured by commercial real estate (including subordinated interests, mezzanine loans, and other real estate-related securities), and securities resulting from commercial real estate securitizations or structured product transactions;
- investing in equity and equity-related instruments;
- borrowing/leveraging, including construction, short-term bridge and/or long term permanent loans;
- investing in or with other partnerships and entities; and
- investing in, with, or alongside affiliates.

From time to time, OREC makes short-term investments on behalf of Investment Advisory Accounts for cash management purposes that will generally include cash, short-term obligations of the United States of America, or fully guaranteed as to interest and principal by the United States of America, interest bearing accounts or certificates of deposit, repurchase agreements and commercial paper or other short term, liquid AAA rated assets.

Certain risks associated with an investment in an Investment Advisory Account include:

- Competition; Availability of Investments. The markets in which the Investment Advisory Accounts invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns or credit erosion in the quality of potential investments. There can be no assurance that the Investment Advisory Accounts will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, independent mortgage loan servicers, large financial institutions, the public equity markets and other investors or lending may reduce the

availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce the Investment Advisory Accounts' opportunity for profit by generally increasing price pressure on desired assets, reducing off-market opportunities as well as the margins available on those off-market opportunities that can still be identified.

- Due Diligence. OREC's due diligence of investment opportunities may not identify all pertinent risks, which could materially affect the performance of Investment Advisory Account assets.
- Valuation and Investment Advisory Account Reports. Generally, Investment Advisory Account investments will not be in readily marketable assets for which prices are available from third parties. Where applicable, or required by Investment Advisory Accounts, OREC may report investments at estimated market value, or amortized cost basis, as determined in good faith by OREC. OREC may also report forecasted cash flows for investments, as determined in good faith by OREC. There can be no assurance that the value assigned to, or cash flows forecasted for, an investment at a certain time will equal the value or cash flows that the Investment Advisory Account is ultimately able to realize.
- Financial Markets and Regulatory Change. The instability in global financial markets has heightened the risks associated with the investment activities and operations of investment funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which OREC works. Market disruptions over the recent years and the increase in capital being allocated to investment funds and other alternative investment vehicles have led to increased scrutiny and regulation over the investment fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to Investment Advisory Accounts, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to Investment Advisory Accounts' interests.
- Limited Diversification. In the normal course of making investments on behalf of Investment Advisory Accounts, OREC may be concentrated in a limited number or type of financial instruments or assets. Such concentration of risk may increase the losses suffered by the Investment Advisory Accounts or reduce their ability to hedge their exposure and to dispose of depreciating assets. Limited diversity could expose the Investment Advisory Accounts to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments or assets. In the Investment Advisory Accounts that are concentrated in a limited number or type of financial instruments, the overall adverse impact on the Investment Advisory Accounts of adverse movements in the value of their portfolios will be considerably greater than if the Investment Advisory Accounts were not permitted to concentrate their investments in such manner.

- Investments Longer than Term. Investment Advisory Accounts may invest in investments, which may not be advantageously disposed of prior to the expiration of the Investment Advisory Accounts' respective vehicle life terms. Although OREC expects that the investments will be disposed of prior to the expiration of the term, Investment Advisory Accounts may take a reasonable period of time from the expiration of the term to wind up their affairs and dispose of assets, in accordance with the terms of the Investment Advisory Accounts' documents. In light of the foregoing, prospective investors should note that Investment Advisory Accounts may have to sell, distribute, or otherwise dispose of investments at a disadvantageous time.
- Uncertainty of Financial Projections. OREC or its affiliates generally evaluate potential investments on the basis of financial projections for these investments. Projections are only estimates of future results which rely on assumptions made at the time of the projections. There can be no assurance that OREC can attain these projected results, and actual results may vary significantly from the projections. In addition, general economic and real estate market conditions, which are not predictable, can have a material adverse impact on the reliability of the projections.
- No Operating History. OREC is recently formed and has no independent operating history or track record upon which investors can evaluate its likely performance. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. In addition, Investment Advisory Accounts are often newly-organized entities that have no prior operating history or track record as independent entities. There can be no assurance that Investment Advisory Accounts or their investments will be able to implement their investment strategies to achieve desired results, or that any target results will be met or that it will be able to avoid losses.
- Cyber Security Risk. Given the use of technologies in conducting business, OREC, and as a result, Investment Advisory Accounts, are more susceptible to operational, information security, and related risks in connection with breaches in cyber security. Generally, a cyber security failure could result from either intentional attacks or unintentional events and include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, causing an Investment Advisory Account to lose proprietary information, corrupting data, or causing operational disruption, including denial-of-service attacks on websites. A cyber security failure could cause an Investment Advisory Account and/or OREC to become subject to regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial losses. Cyber security failures may involve third party service providers, joint venture partners, and investments made by, or counterparties in transactions with, OREC or Investment Advisory Accounts. OREC has established policies and procedures reasonably designed to reduce the risks associated with cyber security failures; however, there can be no assurance that these policies and procedures will prevent or mitigate the impact of cyber security failures.

- Management Risk. The investment performance of Investment Advisory Accounts will be substantially dependent on the services of OREC. In the event of the death, disability, departure, insolvency, or withdrawal of any principal of OREC, or the insolvency or bankruptcy of OREC, the performance of Investment Advisory Accounts may be adversely affected.

The following is a description of some important risks associated with the investment strategies that OREC employs. The following explanation of certain risks is not exhaustive, but rather highlights the significant risks involved in OREC's investment strategies. OREC does not use every strategy listed below when managing each Investment Advisory Account's assets, but rather uses various combinations of strategies that depend on each Investment Advisory Account's circumstances and investment goals.

- Controlling Person Liability. Investment Advisory Accounts may hold controlling interests in some of their investments in real estate companies. The exercise of control over an entity can create additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristics of business ownership may be ignored. If these liabilities were to arise, Investment Advisory Accounts might suffer significant losses.
- Real Estate Debt-Related Investment. The risks generally incidental to ownership and operation of income-producing real estate debt-related assets can affect Investment Advisory Accounts' investments, including:
 - the illiquidity of real estate debt, subordinated products or equity investments;
 - the possibility that cash generated from operations of a property will not be sufficient to meet fixed or variable obligations, including obligations under any debt in which Investment Advisory Accounts are invested;
 - changes in economic conditions affecting real estate ownership directly or the demand for real estate;
 - unavailability of certain types of insurance, and increases in insurance costs;
 - changes in tax rates and other operating expenses;
 - adverse changes in laws, governmental rules and fiscal policies; and
 - terrorism, acts of God, including earthquakes and fire (which can result in uninsured losses), environmental and waste hazards and other factors that are beyond OREC's control.
- Leverage. Generally, Investment Advisory Accounts lever their assets through various types of financings, including seller financing, warehouse financing, unsecured or secured lending, structured product vehicles and other forms of general lending. OREC may also cause the Investment Advisory Accounts to leverage their investment returns with options, short sales, swaps, forwards and other derivative instruments.

While leverage presents opportunities for increasing the Investment Advisory Accounts' total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Investment Advisory Accounts would be magnified to the extent the Investment Advisory Accounts are leveraged. The cumulative effect of the use of leverage by the Investment Advisory Accounts in a market that moves adversely to the Investment Advisory Accounts' investments could result in a substantial loss to the Investment Advisory Accounts, which would be greater than if the Investment Advisory Accounts were not leveraged. Leverage will increase the exposure of the Investment Advisory Accounts to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Investment Advisory Accounts' investments or their corresponding markets.

Investment Advisory Accounts may engage in portfolio financings where several investments are cross-collateralized, pursuant to which multiple investments may be subject to the risk of loss. As a result, Investment Advisory Accounts could lose their interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments. In addition, recourse debt, which Investment Advisory Accounts reserve the right to obtain, may subject other assets of the Investment Advisory Accounts' investments to risk of loss.

- Credit Facilities. An Investment Advisory Account can enter into a credit facility to fund investments or to pay expenses through borrowing instead of capital contributions from underlying investors. These investors are often required to confirm the terms of their commitments, to provide financial information, to execute financing statements and pledge agreements and to provide or execute other documents that could be required by lenders.
- Investment in Distressed Assets. Investment Advisory Accounts may invest in distressed investments. Distressed investment strategies generally involve investing in the securities and other assets of issuers or loans or debt assets collateralized by properties in weak financial condition (perhaps having a negative net worth or cashflow in the case of issuers and properties, respectively), experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems, or with respect to the related borrowers or issuers, involved in various stages of bankruptcy or reorganization proceedings. Investments of this type involve substantial financial and business risks that can result in significant or even total losses. The market prices of such securities, loans or assets are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such assets may be greater than those prevailing in other asset markets. It may take a number of years for the market price of such assets to reflect their intrinsic value. Employees of OREC or an affiliate, on behalf of an Investment Advisory Account, may elect to serve on creditors' committees or other groups to ensure preservation or enhancement of the Investment Advisory Account's position as a creditor.

In addition, Investment Advisory Accounts may purchase mortgage loans on which the borrowers are or were having trouble making payments. These mortgage loans may be in default or may have a greater than normal risk of future defaults, delinquencies, bankruptcies or losses due to fraud. Returns on investments in mortgage loans depend on a borrower's ability to make required payments and, if a borrower defaults, the ability of the loan's servicer to foreclose and liquidate the mortgage loan.

- Use of Valuations. Unlike exchange-listed and other readily tradable securities, real estate-related assets generally cannot be marked to an established market. Instead, an appraisal or a valuation is only an estimate of value and is not a precise measure of realizable value. Accordingly, OREC's asset valuations will be subject to numerous assumptions and limitations. Ultimate realization of the market value of a real estate asset depends to a great extent on economic and other conditions beyond OREC's control. Further, appraised or otherwise determined values do not necessarily represent the price at which a real estate investment would sell since market prices of investments can only be determined by negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a project, market transactions and the relative yield for an asset measured against alternative investments. Valuations will generally be based on the discounted cash flows or comparative sales for Investment Advisory Accounts' assets.
- REIT Securities and Real Estate Securities. Investment Advisory Accounts may invest in real estate investment trusts (REITs) and the securities of other companies primarily engaged in real estate activities, such as real estate development and management. Investment in REITs can have very similar risks to those described above relating to other real estate investments. Investments in REITs are also subject to special risks, such as restrictions on ownership and tax risks, including the risk of a REIT losing its status as a REIT. In addition, many REITs have small-to-medium sized market capitalizations, which may be more volatile than prices of large-capitalization securities and, if so, an investment in such securities would be less liquid.
- Fraud. Of paramount concern in certain types of investments (e.g., loan investments) is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of Investment Advisory Accounts to perfect or effectuate a lien on the collateral securing the loan. In certain instances, OREC and/or Investment Advisory Accounts will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Investment Advisory Accounts may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.
- Multifamily and Commercial Loans. Multifamily and commercial loans generally may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by single family residential

property. Multifamily and commercial loans generally are non-recourse loans and in the event of a default generally there will be recourse only against the specific properties and other assets that have been pledged to secure such mortgage loans. Also, even if a multifamily or commercial loan provides for recourse to a borrower or its affiliates, an Investment Advisory Account is unlikely to ultimately recover any amounts not covered by the commercial property. Therefore, the ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan may be impaired. The value of an income-producing property is directly related to the net operating income derived from such property. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses (for those multifamily properties that have a retail or office component), property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property. Furthermore, the value of any commercial property and the net operating income may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property and other service providers may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments, declines in real estate values, declines in rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, environmental hazards, and social unrest and civil disturbances.

- Risks Particular to Multifamily Properties. A large number of factors may adversely affect the value and successful operation of a multifamily property, including the physical attributes of the apartment or student housing building (e.g., its age, appearance and construction quality); the quality of property management; the location of the property (e.g., a change in the neighborhood over time or increased crime in the neighborhood); the ability of management to provide adequate security, maintenance and insurance; the types of services and amenities the property provides; the property's reputation; the level of mortgage interest rates (which may encourage tenants to purchase rather than rent housing); the generally short terms of residential leases and the need for continued re-letting; rent concessions and month to month leases, which may impact cash flow at the property; in the case of student housing facilities, which may be more susceptible to damage or wear and tear than other types of multifamily housing, the reliance on the financial well-being of the college or university to which it relates, competition from on campus housing units, which may adversely affect occupancy, the physical layout of the housing, which may not be readily convertible to traditional multifamily use, and that

student tenants have a higher turnover rate than other types of multifamily tenants, which in certain cases is compounded by the fact that student leases are available for periods of less than 12 months; restrictions on the age of tenants who may reside at the property; state and local regulations and changes thereto, including rent control and rent stabilization; whether the property is subject to low income housing use restrictions that limit income of tenants and rent for units; the presence of competing properties and residential developments in the local market; the existence of corporate tenants renting large blocks of units at the property, which in the event such tenant vacates would leave the property with a significant percentage of unoccupied space, and in the event such tenant was renting at an above market rent may make finding replacement tenants difficult; the tenant mix, particularly if the tenants are predominantly students, personnel from or workers related to a military base or workers from a particular business or industry; adverse local, regional or national economic conditions, which may limit the amount of rent that can be charged and may result in a reduction in timely rent payments or a reduction in occupancy; government assistance/rent subsidy programs; and national, state or local politics.

Tax credit, city, state and federal housing subsidies, rent stabilization, elder housing or similar programs may apply to multifamily properties. The limitations and restrictions imposed by these programs could result in realized losses on the mortgage loans. These programs may include rent limitations that could adversely affect the ability of borrowers to increase rents to maintain the condition of their mortgaged properties and satisfy operating expenses; and tenancy and tenant income restrictions that may reduce the number of eligible tenants in those mortgaged properties and result in a reduction in occupancy rates. In addition, the differences in rents between subsidized or supported properties and other multifamily properties in the same area may not be a sufficient economic incentive for some eligible tenants to reside at a subsidized or supported property that may have fewer amenities or be less attractive as a residence.

- Mezzanine Loans. Investment Advisory Accounts may invest in mezzanine loans from time to time. This type of loan is secured not by the real estate, but by the stock belonging to the company that owns the property. There are certain risks associated with investing in mezzanine loans. First, it is likely that an Investment Advisory Account's mezzanine investments will be subordinate to the borrower's more senior debt, and if the borrower defaults under the more senior loan, the lenders of the more senior loan will have preferential claims over those of the Investment Advisory Account. In this case, the borrower's assets would first be used to repay the senior lender, so there is the risk that all or substantially all of the borrower's assets will be unavailable to repay the Investment Advisory Account and other subordinate lenders. In addition, if the Investment Advisory Account attempts to enforce a borrower's obligations, it could be subject to a borrower's claims of breach of contract or other unfair lending claims. If a borrower goes bankrupt, the Investment Advisory Account also run the risk of being included in bankruptcy proceedings, which can be costly and lengthy. Lastly, there can be no assurance that a borrower will repay its mezzanine loans or that the Investment Advisory Account will ultimately be able to collect on any of the collateral pledged for the loans.

- Preferred Equity Investments. Investment Advisory Accounts may invest in real estate-related preferred equity securities, which may involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to traditional loans and are not secured by property underlying the investment. Furthermore, should the issuer default on an Investment Advisory Account's investment, the Investment Advisory Account would be able to proceed only against the entity in which it has an interest, and not the property owned by such entity and underlying the Investment Advisory Account's investment. As a result, the Investment Advisory Account may not recover some or all of its investment.
- Fixed Income Investments. Investment Advisory Accounts may trade and invest in fixed income financial instruments. The value of fixed income financial instruments will change as the general levels of volatility and interest rates fluctuate. When interest rates decline, the value of fixed income financial instruments can be expected to rise. Conversely, when interest rates rise, the value of such financial instruments can be expected to decline. To the extent that interest rates move in a direction contrary to the direction anticipated by OREC, the overall investment performance of an Investment Advisory Account will be affected. The market value of fixed income financial instruments also varies according to the relative financial condition of the issuer. Investments in lower rated or unrated fixed income financial instruments, while generally providing greater opportunity for gain and income than investments in higher rated financial instruments, usually entail greater risk (including the possibility of default or bankruptcy of the issuers of such financial instruments).
- B-Notes and A/B Structures. Investment Advisory Accounts may invest to a certain extent in B-notes, which investments are subordinate to the A-note portion of the same loan. Certain additional risks apply to B-note investments, including those described herein. The B-note portion of a loan is typically smaller relative to the overall loan, and vis-à-vis the A-note portion of the loan, is in the first loss position with respect to any losses incurred on the underlying loan. In any investment constituting a B-note, OREC generally will not directly or indirectly hold any control rights regarding the underlying loans and such control rights will be held by the holders of the A-note portion of such loan. Such holders may have economic or business interests or goals that are inconsistent with those of the Investment Advisory Account and will be in a position to take actions in a manner contrary to the Investment Advisory Account's investment objectives and make decisions that are detrimental to the Investment Advisory Account (including, without limitation, decisions regarding amendments to the underlying loan documents, enforcement of remedies and workouts).

As a means to protect against the holder of the A-note from taking certain actions or receiving certain benefits to the detriment of the holder of the B-note, the holder of the B-note may have the right to purchase the A-note from its holder. If available, this right may not be meaningful to the Investment Advisory Account. For example, the Investment Advisory Account may not have the capital available to consummate such purchase, or

such purchase may alter the Investment Advisory Account's overall portfolio and risk/return profile to the detriment of investors.

- Yield Characteristics. The yield characteristics of mortgage-related securities differ from traditional debt securities. The major differences include more frequent interest and principal payments, usually monthly, and the possibility that prepayments of principal may be made at any time. Prepayment rates are influenced by changes in current interest rates and a variety of other factors. In general, changes in the rate of prepayments will change the yield to maturity of the security. These differences can result in significantly greater price and yield volatility than is the case with traditional debt securities. The risk management techniques which may be utilized by an Investment Advisory Account cannot provide any assurance that the Investment Advisory Account will not be exposed to risks of significant trading losses. The prices of other derivatives, futures contracts and options used for hedging purposes may not correlate with price movements of the underlying securities being hedged.
- Subordinated Securities. Investment Advisory Accounts may invest in mortgage-backed securities and other securities that are subordinate to one or more senior classes. Generally, such subordinated securities bear the first risk of loss on the mortgages or other collateral underlying such securities. As a result, changes in the value of the performance of subordinated securities are expected to be greater than the change in the value or payment performance of the underlying mortgages or other collateral. In the event of a default, proceeds from any realization on the underlying mortgages or other collateral will first be allocated to the senior classes of securities in accordance with the priority of payments prior to any allocation to the subordinated securities held by Investment Advisory Accounts.
- Credit Ratings. Credit ratings of debt securities are not a guarantee of quality. A credit rating represents only the applicable rating agency's opinion regarding credit quality based on the rating agency's evaluation of the safety of the principal and interest payments. In determining a credit rating, rating agencies do not evaluate the risks of fluctuations in market value. As a result, a credit rating may not fully reflect the risks inherent in the relevant security. Rating agencies may fail to make timely changes to credit ratings in response to subsequent events. In addition, to the extent that a rating agency rates a security at the request of an issuer, the rating agency has a conflict of interest in providing such rating.
- Environmental Risks of Real Estate. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up any hazardous or toxic substances or petroleum product releases at such property and may be liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. These laws typically impose clean up responsibility and liability without regard to whether the owner knew of or caused the presence of the

contaminants, and the liability under such laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances or the failure to properly remedy the contamination on such property may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances or petroleum products at a disposal or treatment facility may also be liable for the costs of removal or remediation of a release of hazardous or toxic substances or petroleum products at such disposal or treatment facility, whether or not the facility is owned or operated by such person. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with contamination. The owner of a site may also be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site.

In connection with its indirect ownership and operation of real estate, Investment Advisory Accounts may incur liability for such environmental costs. Additionally, changes in environmental laws or in the environmental condition of an asset may create liabilities that did not exist at the time of acquisition and that could not have been foreseen.

- Expedited Investment Decisions. Investment analyses and decisions by OREC may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to OREC may be limited. Therefore, no assurance can be given that OREC will have knowledge of all circumstances that may adversely affect an investment. In addition, OREC may rely upon independent consultants and other sources in connection with its evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such independent consultants or other sources or to an Investment Advisory Account's right of recourse against it in the event errors or omissions occur.
- Contingent Liabilities upon Disposition of Investments. In connection with the disposition or realization of an investment, an Investment Advisory Account may be required to make certain representations about the assets that are typical of those made in connection with the sale of similar types of assets and may be responsible for the content of disclosure documents under applicable securities laws. Investment Advisory Accounts may also be required to indemnify the purchasers of such investment to the extent that any such representations or disclosure documents turn out to be inaccurate.
- Interest Rate Risks. In general, it is expected that Investment Advisory Accounts hold loans until maturity and repayment. Prior to such maturity, or in the event of a foreclosure, changes in prevailing interest rates could negatively affect the value of assets held by an Investment Advisory Account. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income instruments tends to decrease. Conversely, as interest rates fall, the market

value of fixed income instruments tends to increase. This risk will typically be greater for long-term debt than for short-term debt. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond OREC's control.

OREC may attempt to minimize the exposure of an Investment Advisory Account's portfolio to interest rate changes by entering into interest rate hedges, purchasing caps, or by structuring loans which have floating interest rates. However, OREC may not implement such hedges, or if it does do so, there can be no guarantee that it will be successful in fully mitigating the impact of interest rate changes on the Investment Advisory Account's portfolio.

- Inflation Risks. Investment Advisory Accounts have exposure to inflation risks, meaning that the value of Investment Advisory Accounts' investments or income from Investment Advisory Accounts' investments will be worth less in the future as inflation decreases the value of money over time.
- Structured Investments. Investment Advisory Accounts may purchase structured investments (such as swaps, options, or other derivative instruments) that are indexed to a return on an underlying vehicle. The value of structured investments depends largely upon price movements in the vehicle to which such structured investments are linked. Therefore, many of the risks applicable to the underlying asset are also applicable to the structured investments. However, there are other risks associated with the structured investments.

Structured investments expose Investment Advisory Accounts to the credit risk of the parties with which it deals. Non-performance by parties of the obligations or contracts underlying the structured investments could expose Investment Advisory Accounts to losses, whether or not the transaction itself was profitable. Structured investments may expose Investment Advisory Accounts to additional liquidity risks as there may not be a liquid market within which to close or dispose of outstanding obligations or contracts. Structured investments may also be highly leveraged.

- Structured Notes. The structured note market evolved as a way to give investors exposure to indices and risks which were otherwise not available to them. For example, U.S. fund managers restricted to dollar-denominated instruments issued by an agency of the U.S. government, but who sought exposure to the yen, might have purchased a Sallie Mae structured note, paying, in dollars, a coupon linked by some formula to the dollar/yen exchange rate. The coupon attached to a structured note could depend on a wide variety of indices: U.S. or foreign interest rates, U.S. or foreign swap rates, foreign exchange rates or equity indices. The value of such a structured note is closely linked to the level of the relevant index (or indices). Moreover, the coupon may have an optional or contingent dependence on an index (or indices) increasing the complexity of any related hedge.

- Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may be subject to withdrawal at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by an Investment Advisory Account is called for redemption, the Investment Advisory Account will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Investment Advisory Account.
- Repurchase Agreements and Reverse Repurchase Agreements. Investment Advisory Accounts may enter into repurchase and reverse repurchase agreements. Repurchase agreements entail the purchase of a security from a bank or broker-dealer that agrees to repurchase the security at cost plus interest within a specified time. If the party agreeing to repurchase should default, as a result of bankruptcy or otherwise, an Investment Advisory Account may seek to sell the securities which it holds, which action could involve costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Investment Advisory Account’s ability to dispose of the underlying securities may be restricted. Similarly, the entering into of reverse repurchase agreements involves certain risks. A reverse repurchase agreement involves the sale of a security by an Investment Advisory Account and its agreement to repurchase the security at a specified time and price. Under a reverse repurchase agreement, an Investment Advisory Account continues to receive any principal and interest payments on the underlying financial instrument during the term of the agreement.
- Credit Default Swaps. Investment Advisory Accounts may enter into credit default swap agreements. The “buyer” in a credit default swap contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment

upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified structuring. An Investment Advisory Account may either be the buyer or the seller in the transaction. As a seller, an Investment Advisory Account receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, an Investment Advisory Account typically must pay the contingent payment to the buyer, which typically is the “par value” (full notional value) of the reference obligation. The contingent payment may be a cash settlement or by physical delivery of the reference obligation in return for payment of the face amount of the obligation. If an Investment Advisory Account is a buyer and no credit event occurs, the Investment Advisory Account may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value.

Credit default swap agreements may involve greater risks than if an Investment Advisory Account had invested in the reference obligation directly. Credit default swap agreements are subject to general market risk, liquidity risk, counterparty risk and credit risk. As noted above, if the Investment Advisory Account is a buyer and no credit event occurs, it will lose its investment. In addition, the value of the reference obligation received by the Investment Advisory Account as a seller if a credit event occurs, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Investment Advisory Account.

- Reliance on Projections; Valuation Models. Investment Advisory Accounts may rely upon projections developed by OREC concerning future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of OREC. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of loan collateral to realize projected values and cash flow. Further, OREC’s strategies may be based, in part, on valuation and similar models which it has developed over time. Numerous firms commit substantial resources to the updating and maintenance of existing models as well as the development of new models. As market dynamics shift over time, a previously highly successful model may become outdated. There can be no assurance that OREC will be successful maintaining effective models.
- Commercial Mortgage-Backed Securities (“CMBS”). CMBS are securities backed by obligations (including participation interests in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, land, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. CMBS may be collateralized by one asset, a portfolio of assets, related assets or a portfolio of loans to unrelated borrowers. CMBS have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. CMBS securities may be fixed or floating, rated or unrated and domestic or foreign based, whether by issuer, properties, collateral or otherwise. As the

total broader market is smaller than the RMBS and ABS (each as defined below) markets, CMBS securities values may be materially influenced by changes in larger and unrelated markets.

Risks affecting commercial real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclical nature and leverage associated with commercial real estate-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. In addition, commercial mortgage loans generally are nonrecourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt, either senior, *pari passu* or subordinate, that may affect the related borrower's ability to refinance the loan or result in reduced cash flow and deferred maintenance. Additional risks are presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hotels present special risks to lenders and CMBS securities holders because they are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator. In addition, the transferability of a hotel's operating, liquor and other licenses upon transfer of a hotel, whether through purchase or foreclosure, is subject to local law requirements. As another example, retail properties are affected by retail trends, including e-commerce. Multifamily properties are affected by demographic trends of new housing supply and the availability of governmental financing. Senior housing has significant governmental regulations which affects ownership, licensing, operations, maintenance and financing. These examples are illustrative of the factors and circumstances that increase the risks involved with commercial real estate investing and lending but is in no way intended to represent a complete list of risks related to commercial real estate sub-sectors or the CMBS market as a whole. Commercial properties tend to be unique and are more difficult to value than single family residential properties. Commercial lending is generally viewed as exposing an investor to a greater risk of loss than residential lending since it typically involves larger loans to a single borrower or related borrowers than residential lending.

- **RMBS.** Investment Advisory Accounts may invest in residential MBS ("RMBS") including subordinated tranches of RMBS and mortgage servicing rights. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. The value of RMBS will therefore be influenced by factors affecting the value of the underlying portfolio or mortgage loans, as discussed below, and by the terms and payment histories of such RMBS. These risks, which are discussed below in the context of the underlying mortgage loans and the mortgage market in general, include, without limitation, default, delinquencies, prepayment and modification risks, as well as interest rate and general market risks.

In addition, residential mortgage loans underlying RMBS are subject to various federal and state laws, public policies and principles of equity that protect consumers, delay foreclosures or permit or encourage modifications, which could have an adverse effect on the value of a mortgage loan and the corresponding RMBS. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

The value of RMBS and other mortgage-backed securities in which Investment Advisory Accounts may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

In addition, it is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

- Originators and Servicers of Mortgage-Related Securities May Experience Financial Difficulties. Pools of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") acquired by an Investment Advisory Account may be affected by originators and servicers of mortgage-related securities experiencing serious financial difficulties and, in some cases, entering bankruptcy proceedings. These difficulties have resulted in part from: (i) declining markets for mortgage-related securities held on their balance sheets, (ii) increasing claims for repurchases of mortgage-related securities previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding quality, (iii) increasing costs of servicing a delinquent portfolio without a corresponding increase in servicing compensation, (iv) declining value of any residual interests retained by sellers of mortgages in the securitization market and (v) declining real estate values, which reduces the number of borrowers seeking or able to refinance their mortgages and results in a decrease in overall originations.

The terms of certain ABS and MBS may also provide that the servicer is required to make advances in respect of delinquent mortgages. However, servicers experiencing financial difficulties may not be able to perform these obligations. Even if a servicer were able to advance amounts in respect of delinquent mortgages, its obligations to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgages. In addition, a servicer's obligations to make such advances may be limited to the amount of its servicing fee.

Any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers may have an adverse impact on originators and servicers. These

factors, among others, may have the overall effect of increasing costs and expenses of originators and servicers, while at the same time decreasing servicing cash flow and loan origination revenues. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgages that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure.

Investment Advisory Accounts will be entitled to remove and replace the existing servicer or special servicer under certain circumstances, including a failure to perform its servicing obligations, a bankruptcy of the servicer, and in some cases, if certain loss and/or delinquency triggers are exceeded. While non-agency MBS transactions typically enlist a reputable “backup servicer,” there is no guarantee that a suitable servicer could be found to assume the obligations of the existing servicer. The transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and result in an increase in delinquencies and losses and a decrease in recoveries.

Transfers of MBS by the originator or seller will be characterized in the applicable sale agreement as a sale transaction. Nevertheless, in the event of a bankruptcy of the originator or seller, the trustee in bankruptcy could attempt to re-characterize the sale of the MBS as a borrowing secured by a pledge of the MBS. If such attempt were successful, the trustee in bankruptcy could prevent the trustee for the MBS from exercising any of the rights of the owner of the MBS and also could elect to liquidate the MBS. Investment Advisory Accounts may suffer a loss to the extent that the proceeds of the liquidation of the MBS would not be sufficient to pay amounts owed in respect of their investments. If this occurs, Investment Advisory Accounts would lose the right to future payments of interest and may fail to recover their initial investment. Regardless of whether a trustee elects to foreclose on the underlying pool, delays in payments on their investments and possible reductions in the amount of these payments could occur.

Investment Advisory Accounts may purchase a portion of MBS consisting of RMBS that were originated or are serviced (or both) by mortgage companies that are currently in bankruptcy proceedings or subject to regulatory enforcement actions which have restricted the ability of such mortgage companies or its affiliates to originate mortgage-related securities and/or affect their ability to service or subservice such securities. Servicers who have sought bankruptcy protection may, due to the application of applicable bankruptcy laws, no longer be required to make service advances.

- Healthcare Loans. Investment Advisory Accounts may invest in asset-based loans to individuals and businesses in the healthcare industry, such as for-profit hospitals, providers in the areas of skilled nursing, assisted living, memory care, home healthcare, physical therapy, and healthcare product delivery, and other healthcare-related businesses. Such loans are subject to the risks associated with operating in the healthcare industry. Healthcare facilities are highly regulated by federal, state and local law. They are subject to numerous factors which can increase the cost of operation, limit growth and, in extreme

cases, require or result in suspension or cessation of operations, or otherwise adversely affect the values of the mortgaged properties and the borrowers' ability to repay the related mortgage loans. Such factors include including federal and state licensing requirements; facility inspections; rate setting; reimbursement policies; and laws relating to the adequacy of medical care, distribution of pharmaceuticals, use of equipment, staffing and maintenance of and additions to facilities and services. Any changes in federal, state or local laws governing healthcare facility operators may also adversely affect a healthcare facility operator's revenues and reimbursement for operating, capital and property expenses. The failure of an operator to comply with applicable laws, regulations, requirements, rules, policies and guidelines could lead to the suspension or termination of the operator from the Medicare and/or Medicaid programs or other insurance programs, or the denial of Medicare and/or Medicaid payments for new admissions, which could have serious and adverse effects on the operator's ability to operate the related facility located at the related mortgaged property, and thus severely impair the applicable tenant's ability to pay rent due to the borrower(s) and the borrower(s)' ability to make required payments on the related mortgage loan.

Under applicable federal and state laws and regulations, Medicare and Medicaid reimbursements generally may not be made to any person other than the provider who actually furnished the related material goods and services. Accordingly, in the event of foreclosure on a healthcare property, neither a lender nor other subsequent lessee or operator of the property would generally be entitled to obtain from federal or state governments any outstanding reimbursement payments relating to services furnished at the property prior to foreclosure. Furthermore, in the event of foreclosure, there can be no assurance that a lender or other purchaser in a foreclosure sale would be entitled to the rights under any required licenses and regulatory approvals. The lender or other purchaser may have to apply in its own right for those licenses and approvals. There can be no assurance that a new license could be obtained or that a new approval would be granted.

- Total Return Swaps and Index Swaps. Certain Investment Advisory Accounts may enter into total return and index swaps. Total return and index swaps are used as substitutes for owning or shorting the physical securities that comprise a given market index, or to obtain long or short exposure in markets where no physical securities are available, such as an interest rate index. Total return refers to the payment (or receipt) of an index's total return, which is then exchanged for the receipt (or payment) of a floating interest rate. Total return swaps provide Investment Advisory Accounts with the additional flexibility of gaining or shedding exposure to a market or sector index by using the most cost-effective vehicle available. There can be no assurance that the price relationship between the cash-market security or index and the total return or index swap will remain constant, and events unrelated to the underlying securities or index (such as those affecting availability of borrowed money and liquidity, or the creditworthiness of a counterparty) can cause the price relationship to change. This risk is known as "basis risk." Basis risk may cause Investment Advisory Accounts to realize a greater loss on an investment in synthetic form than might otherwise be the case with cash-market securities. To the extent Investment

Advisory Accounts use total return or index swaps to hedge risk, basis risk may cause the hedge to be less effective or ineffective.

- Hedging Generally. Investment Advisory Accounts may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge their portfolio positions and to seek to meet Investment Advisory Accounts' investment objectives opportunistically as more fully described above. The success of Investment Advisory Accounts' hedging strategy is subject to the ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when Investment Advisory Accounts hedge portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While Investment Advisory Accounts may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for Investment Advisory Accounts than if it had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent Investment Advisory Accounts from achieving the intended hedge or expose Investment Advisory Accounts to risk of loss. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of Investment Advisory Accounts' portfolio holdings. Investment Advisory Accounts will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.
- Use of Interest Rate Swaps. OREC may use swap agreements. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary investment transactions. Interest rate swaps do not typically involve the delivery of financial interest rate caps. OREC may enter into interest rate caps (i.e., call options on interest rates). The risks in trading options are different from the risks in trading the underlying instruments. For example, if an Investment Advisory Account buys an option, it will be required to pay a "premium" representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, the Investment Advisory Account may lose the entire amount of the premium.
- Floating-Rate Loans. Investment Advisory Accounts may invest in floating-rate loans in order to limit its exposure to interest-rate risk. Floating-rate loans pay larger coupons as interest rates rise, which could have an adverse impact on the property including borrowers' ability to pay debt. An increase in the amount of borrower defaults would

increase an Investment Advisory Account's loss rate on such loans and would have a negative impact on the performance returns of the Investment Advisory Account. Additionally, transactions involving floating-rate loans typically have longer settlement periods than more traditional securities and often involve borrowers whose financial condition is troubled or highly leveraged which increases the risk of default. In addition, the value of the collateral securing the floating-rate loan may decline, causing the loan to be substantially unsecured.

- Lower Credit Quality Loans. There may be no restrictions on the credit quality of an Investment Advisory Account's loans. Loans purchased by an Investment Advisory Account may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which an Investment Advisory Account may fund have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.
- Secured Loans. Investment Advisory Accounts may invest in secured loans. Secured loans are relatively illiquid, meaning that a secured loan may not be able to be sold quickly or at a fair price. In addition, secured loans, like most other debt obligations, are subject to the risk of default. This risk of default is greater than with many other types of debt obligations because secured loans are often obligations of below-investment-grade companies. A borrower's default on principal or income payments may result in a reduction of the value of the applicable secured loan, the income produced by the secured loan investment and possibly an Investment Advisory Account's net asset value. Secured loans are subject to interest rate risk. Interest rates on secured loans will adjust periodically, based on a base rate (typically LIBOR) plus a premium or spread over the base rate. In general, the value of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Secured loans are also subject to prepayment risk because borrowers typically have option prepayment rights. Because of prepayments, the actual remaining maturity of secured loans may be considerably less than their stated maturity.
- Co-Investments with Third Parties. Investment Advisory Accounts may co-invest with other Investment Advisory Accounts or third parties through joint ventures or other entities (including in certain cases OREC affiliates). Such investments involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer has financial difficulties resulting in a negative impact on such investment; has economic or business interests or goals that are inconsistent with those of Investment Advisory Accounts; or is in a position to take (or block) action in a manner contrary to the Investment Advisory Accounts' investment objectives. In those circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments and

create potential conflicts of interest between such parties and the Investment Advisory Accounts.

Any of the above might subject an Investment Advisory Account to liabilities and thus reduce its returns on its investment with that joint venture partner. In addition, disagreements or disputes between an Investment Advisory Account and the joint venture partner could result in litigation, which could increase such Investment Advisory Account's expenses and potentially limit the time and efforts OREC's personnel are able to devote to such Investment Advisory Account's business.

- Geographic Concentration of Mortgage Loans. The mortgage loans and securities backed by mortgage loans in which Investment Advisory Accounts may invest may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may affect real property values) may affect the ability of borrowers to repay their mortgage loans on time. Such inability of borrowers to repay their mortgage loans on time would also increase rates of loss and delinquency and reduce servicing fee revenues. Properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans and reduce servicing fee revenues. Natural disasters, such as wildfires, severe storms, tornadoes, hurricanes and flooding affecting regions of the United States from time to time may also result in prepayments of mortgage loans. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect the performance of Investment Advisory Accounts.
- Risk of Developing Property Collateralizing Construction Loans. Property development activities include the risk that borrowers under debt held by Investment Advisory Accounts may abandon development projects after expending resources, construction costs of a project may exceed original estimates, occupancy rate and rents at a newly complete property may be less than anticipated and the construction and leasing of a property may not be completed on schedule. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use building, occupancy, and other required government permits and authorizations.

OREC encourages investors to consider all of the risk factors explained above and in the offering documents of Investment Advisory Accounts. Investment Advisory Accounts and any investors in Investment Advisory Accounts risk the loss of their entire investment.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose any legal or disciplinary events that would be material to a client's or prospective client's evaluation of OREC's advisory business or the integrity of management. Neither OREC nor its management personnel are currently the subject of any material litigation, formal investigations, administrative proceedings or disciplinary events.

Item 10 – Other Financial Industry Activities and Affiliations

As described in Item 5—Fees and Compensation, OREC uses the services of certain of its affiliates in connection with rendering advisory services to Investment Advisory Accounts. These services include, but may not be limited to, certain non-investment related services including compliance and related support services, human resources and information and technology support services. Depending on the types of services, the fees for those services may be paid by Investment Advisory Accounts or covered by OREC. Arrangements such as these can create potential conflicts of interest in that OREC could be viewed as placing its interests and the interests of its affiliates ahead of Investment Advisory Accounts' interests. OREC will seek to negotiate the fees for such services on an arm's length basis.

Affiliated Mortgage Providers

Certain of OREC's affiliates are providers of mortgage financing for commercial real estate, conventional and affordable multifamily and senior housing, and healthcare providers, and originate and service loans for different types of multifamily properties, including apartment buildings, student housing and manufactured housing communities ("Affiliated Mortgage Providers"). The majority of the loans are structured for funding through the Fannie Mae Delegated Underwriting and Servicing program, Freddie Mac Program Plus, and Federal Housing Administration ("Agency Loans").

Affiliated Mortgage Providers may provide mortgage financing or other services to Investment Advisory Accounts and certain third-parties or affiliates that seek to acquire assets from Investment Advisory Accounts. In addition, OREC frequently (i) shares information about Investment Advisory Accounts and their assets with the Affiliated Mortgage Providers for purposes of facilitating such activities, and (ii) assists the Affiliated Mortgage Providers with the marketing of their services to prospective third party clients.

Affiliated Broker-Dealers

OREC Securities, LLC ("ORECS") is an affiliated broker-dealer registered with the SEC and is a member of FINRA. ORECS currently does not, but may in the future, maintain Investment Advisory Accounts or execute securities transactions on behalf of Investment Advisory Accounts and OREC currently does not, but may in the future, execute trades on behalf of Investment Advisory Accounts through ORECS.

Conflicts as to ORIX

OREC is indirectly wholly-owned by ORIX Corporation USA (“ORIX USA”). ORIX USA is a diversified financial services company and wholly-owned subsidiary of ORIX Corporation (together with ORIX USA, “ORIX”) (NYSE: IX; TSE: 8591). The relationship of OREC as an indirect wholly-owned subsidiary of ORIX creates several potential conflicts of interest as described below. In addition, ORIX, separately from OREC, invests and trades in securities for its own proprietary account utilizing strategies and types of securities that, from time to time, will compete or be in conflict with OREC’s activities on behalf of its clients. OREC and its personnel will be incentivized by virtue of its relationship with ORIX to compete less vigorously with ORIX for investment opportunities, or otherwise conduct its activities (e.g., with respect to the timing of its transactions) in a manner that disadvantages OREC’s clients.

ORIX may become an investor in certain of the OREC Funds, which gives rise to certain conflicts of interest. For example, OREC has an incentive to permit ORIX to invest in an OREC Fund on terms (for example, preferential fees and transparency) that are better than those available to other unaffiliated investors (or alternatively, to favor the OREC Funds in which ORIX invests over other Investment Advisory Accounts). Please see Item 12—Brokerage Practices for information regarding OREC’s trade allocation and aggregation of trade policies, and Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading for information regarding OREC’s Code of Ethics. In addition to those measures, OREC has adopted other policies and procedures in an effort to further address or mitigate these and other actual or apparent conflicts of interest.

Other Affiliates

OREC has a supplementary list of related persons who are not listed in Section 7.A of Schedule D of Form ADV Part 1A due to the fact that such affiliated companies are deemed to be “operationally independent” in accordance with applicable federal securities laws and OREC has no reason to believe that its relationship with such related persons creates a material conflict of interest for its clients.

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

Code of Ethics

Under certain circumstances, OREC may recommend to Investment Advisory Accounts, or buy or sell for Investment Advisory Accounts, securities at the same time OREC, its affiliates or its personnel buy or sell the same securities. In addition, OREC, as well as its affiliates and personnel, may co-invest with Investment Advisory Accounts and may invest directly in Investment Advisory Accounts that OREC or its affiliates manage. Additionally, certain portfolio managers may receive a portion of the carried interest from OREC Funds received by an affiliate of OREC. Any of the foregoing could potentially create a conflict of interest between OREC and an Investment Advisory Account. To address these and other conflicts of interest, OREC has established a code of ethics that sets forth standards of ethical conduct for its supervised persons and the employees

of its affiliates and subsidiary companies. In addition, OREC has established policies and procedures that address, among other things, potential conflicts of interest that may arise in the management of Investment Advisory Accounts.

The code of ethics includes specific practices and policies to ensure that OREC's supervised persons and the employees of its affiliates and subsidiary companies fulfill their fiduciary responsibilities of honesty, good faith, and fair dealing, and place Investment Advisory Accounts' interests over the interests of OREC and its supervised persons. All supervised persons are expected to strictly adhere to the practices and policies set forth in the code of ethics, as well as the procedures for approval and reporting requirements established therein. The code of ethics includes specific procedures and policies relating to the required approval and reporting of personal securities and real estate transactions for all access persons, required securities holding reports, insider trading education and prohibitions and annual training certification filings to assure compliance with the code of ethics on an ongoing basis. All required reports are submitted and reviewed by OREC's chief compliance officer.

In addition, the code of ethics contains specific policies regarding gifts, prohibitions on insider trading, and the handling of confidential or non-public information that OREC, its subsidiaries, its supervised persons, or the employees of its subsidiaries may receive in the course of providing services to Investment Advisory Accounts. All supervised persons must also obtain pre-clearance from OREC's chief compliance officer for any political contributions. The code of ethics also provides for a range of sanctions, as deemed appropriate by OREC's senior management, should anyone violate the provisions set forth therein. These sanctions include, but are not limited to, a warning, fines, disgorgement, suspension, or termination of employment.

OREC operates under a code of ethics adopted in accordance with Rule 204A-1 of the Advisers Act, and a set of written policies and procedures adopted and implemented in accordance with Rule 206(4)-(7) of the Advisers Act, all of which are administered by OREC's chief compliance officer. OREC will provide a copy of its code of ethics to any prospective client or investor in an Investment Advisory Account upon request. In addition, OREC's supervised persons who provide services to OREC's Public Company Clients are also subject to such Public Company Client's code of business conduct and ethics and corporate governance guidelines.

Participation or Interest in Client Transactions

Under certain circumstances, OREC may recommend to Investment Advisory Accounts, or buy or sell for Investment Advisory Accounts, securities in which OREC or its affiliates have a material financial interest, including in OREC Funds or Public Company Clients. Because OREC affiliates act as the general partners of the OREC Funds, OREC will have a material interest that could create conflicts that must be managed. In addition, OREC or its affiliates serve as the general partner or the investment manager to certain Investment Advisory Accounts in which other Investment Advisory Accounts invest (pursuant to their investment strategies). In order to minimize any conflict of interest, if a Managed Account invests in an OREC Fund, OREC will waive the management fees and performance-based compensation charged at the OREC Fund level to ensure that OREC does not receive double fees on these investments.

Additionally, OREC or one of its affiliates may sell or purchase real estate equity interests, CMBS, CLOs, other real estate-related securities, or interests in real estate loans or subordinated products to or from an Investment Advisory Account. This could potentially create a conflict of interest between OREC and an Investment Advisory Account because OREC will have an incentive to negotiate more favorable terms for itself or its affiliates at the expense of the Investment Advisory Account. In this instance, OREC will seek to (i) ensure that these transactions are conducted at an arm's length basis, and (ii) obtain Investment Advisory Account consent prior to the consummation of any such transactions. To the extent that any fees are assessed to an Investment Advisory Account in a principal transaction involving OREC or one of its affiliates, OREC will seek to ensure that the fees do not exceed amounts that would be paid to unrelated third parties performing similar services.

OREC may also originate for a fee from borrowers or Investment Advisory Accounts debt investment opportunities for Investment Advisory Accounts. OREC or one of its affiliates may receive origination or disposition fees for the acquisition or sale of real estate and mortgage investments.

The investment activities conducted by OREC on behalf of any Investment Advisory Account may be directly or indirectly competitive with the interests of other Investment Advisory Accounts, and in such cases, conflicts will arise in determining whether an investment opportunity will be offered to any particular Investment Advisory Account. In light of these potential conflicts of interest, OREC has adopted an allocation policy to allot investment opportunities based upon each Investment Advisory Account's stated investment objectives and mandates and any applicable allocation policy entered into between OREC and the Investment Advisory Account. However, for real estate debt related investments, including certain types of preferred equity and certain transitional floating-rate loans, OREC may give or be required to give priority to a particular Investment Advisory Account. In all cases, allocation requirements (if any) set forth in an Investment Advisory Account's governing documents will control. Following this priority allocation, if the investment opportunities are suitable for one or more Investment Advisory Accounts, transactions will be allocated on a fair, equitable and consistent basis over time.

OREC may buy and sell the same security between Investment Advisory Accounts when it believes, in its sole discretion, that such a transaction would be advantageous or otherwise beneficial to each of the Investment Advisory Accounts involved. For example, a cross trade may be effected in a less liquid or otherwise difficult to transact in security (for example, difficult to locate or hard to borrow short), when, in the professional opinion of OREC's advisory personnel, it would reduce the risk of market impact or otherwise reduce the costs associated with the contemplated trade. As a result of their affiliation with OREC, personnel may be permitted to invest in classes of securities or shares offered by OREC Funds or funds managed by affiliates of OREC that result in OREC personnel paying less in terms of fees and expenses, than clients (or their investors) pay for the same investment.

OREC, its affiliates, and clients and funds for whom they act as investment adviser (collectively, the "OREC Related Parties"), on the one hand, and a particular Investment Advisory Account, on the other hand, may invest in or extend credit to different parts of the capital structure of a single

issuer, property or more generally, in a real estate financing transaction. In addition, the OREC Related Parties may have other ongoing relationships with, or have other economic interests in, issuers or real estate financing transactions that are different than those of a particular Investment Advisory Account. The actions of the OREC Related Parties in such instances will be taken based upon their own respective interests and that interest may conflict with, and adversely affect, the interests of the particular Investment Advisory Account.

OREC may determine not to pursue actions and remedies that may be available to a particular Investment Advisory Account holding a more senior position than OREC and/or its affiliates in the capital structure of an issuer experiencing financial or other difficulties. For example, it might be in the interest of the particular Investment Advisory Account, as the holder of a more senior interest in the particular issuer or financing vehicle, to pursue a foreclosure on the property securing a defaulted multifamily/commercial mortgage loan. An OREC Related Party, as the owner of a subordinate interest of a particular issuer or financing vehicle, may decide instead to require a servicer to pursue a restructuring or workout of a defaulted multifamily/commercial mortgage loan in order to avoid an immediate loss that would result from a foreclosure. In addition, in its capacity as an owner or an affiliate of an owner of certain subordinate interests of an issuer or financing vehicle, an OREC Related Party may have certain rights to cure certain defaults and, upon a default, to purchase the related multifamily/commercial mortgage loan for an amount equal to the then current outstanding balance of such loan, the exercise of which may be adverse to the interests of a particular Investment Advisory Account invested in a different part of the capital structure of the same issuer or financing vehicle.

The OREC Related Parties may serve as sponsor, collateral manager, general partner, portfolio manager or investment adviser to Investment Advisory Accounts that invest in different parts of the capital structure of the same issuer or financing vehicle, or in classes of securities that are subordinate or senior to the securities invested in by, a particular Investment Advisory Account. The OREC Related Parties may take action (or refrain from taking action) with respect to an issuer or financing vehicle in which a particular Investment Advisory Account has invested, and such actions (or refraining from action) may have an adverse effect on the particular Investment Advisory Account. In connection with the foregoing, the OREC Related Parties may consult with OREC regarding such actions (or refraining from action), and OREC may, in accordance with applicable law, make investment recommendations and decisions that may be the same as, or different from, those made with respect to a particular Investment Advisory Account.

The OREC Related Parties may also provide advisory and other services to clients who will include borrowers of loans similar to or the same as the assets in which a particular Investment Advisory Account invests. In the course of monitoring such Investment Advisory Account's assets, OREC may consider its relationships with other clients and its affiliates. In providing services to other clients, the OREC Related Parties may recommend activities that would compete with or otherwise adversely affect the particular Investment Advisory Account. The OREC Related Parties will be permitted to take whatever action is in their best interest regardless of the impact on the assets of the particular Investment Advisory Account.

As a result of the various conflicts and related issues described above and the fact that conflicts will not necessarily be resolved in favor of the interests of particular Investment Advisory Account, Investment Advisory Accounts could sustain losses during periods in which OREC and other Investment Advisory Accounts achieve profits generally or with respect to particular holdings in the same issuer, or could achieve lower profits or higher losses than would have been the case had the conflicts described above not existed.

Side Letters

The OREC Funds and/or OREC and its affiliates may enter into letters of understanding granting investors or third parties different rights, terms or conditions (including, without limitation, reductions in management fees, performance compensation, withdrawal, transparency, expenses, revenue share, reporting, “most favored nations”, indemnification and exculpation or other preferential terms, such as access to co-investment opportunities) (“Letters of Understanding”) without notice or consent of other investors. No Letter of Understanding provided to an investor or a third party by an OREC Fund and/or OREC or its affiliate will necessarily entitle any other investor or third party (who do not otherwise also have in place Letters of Understanding) to the rights granted in such letter.

Item 12 – Brokerage Practices

Because Investment Advisory Account investments are made on a negotiated basis, opportunities for trade executions are less common than, for example, accounts that trade primarily in public equities. On those rare occasions that OREC executes trades on behalf of Investment Advisory Accounts, OREC personnel must demonstrate compliance with broker selection, recordkeeping, and other requirements related to trading, including “best execution,” as well as the managed account agreements or offering materials for each Investment Advisory Account, which sets forth investment objectives and guidelines in connection with managing such Investment Advisory Account.

To the extent OREC has complete investment and brokerage discretion over Investment Advisory Accounts, OREC will select broker-dealers for Investment Advisory Accounts’ securities transactions and determine the reasonableness of their compensation based on a number of factors, including the following:

- the financial strength, integrity and stability of the broker-dealer;
- the ability to effect prompt and reliable executions at favorable prices (including the applicable broker-dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- the broker-dealer’s risk in positioning a block of securities; and

- the competitiveness of commission rates in comparison with other broker-dealers satisfying OREC's other selection criteria.

OREC and the broker-dealer will determine the amount of commission to be paid to the broker-dealer; provided, however, that in the event that OREC enters into arrangements with an affiliated broker-dealer, OREC will only pay commissions to the affiliated broker-dealer that do not exceed the amount generally charged by third-party broker-dealers for comparable services.

Research and Soft-Dollar Benefits

OREC does not use Investment Advisory Account commissions to acquire brokerage and research services pursuant to soft dollar transactions.

Brokerage for Client Referrals

In limited circumstances, OREC may use a broker where a division or affiliate of the broker may have referred or may refer investors to Investment Advisory Accounts. In such circumstances, OREC will have a potential conflict of interest in receiving referrals in that OREC will have an incentive to select those brokers. In order to mitigate such a conflict, OREC focuses on the criteria set forth above when selecting brokers.

Directed Brokerage

In limited cases, Investment Advisory Accounts can direct OREC to effect transactions through specific brokers. OREC will seek to use those brokers when the best price and execution are not sacrificed; however, an Investment Advisory Account's insistence on the use of one or more particular brokers can have a materially adverse effect on the quality of execution that is available to such Investment Advisory Account and therefore can negatively impact the performance of the Investment Advisory Account over time. Among other things, Investment Advisory Accounts that direct OREC's use of brokers may pay higher transaction costs, be excluded from aggregated orders, and trade after other Investment Advisory Accounts have traded. It should also be noted that because certain investments are made on a negotiated basis, opportunities for trade aggregation in those instances do not generally exist.

Item 13 – Review of Accounts

OREC maintains comprehensive review procedures for the ongoing monitoring of Investment Advisory Accounts and their financial plans. Personnel of OREC and its affiliates serve on the investment committees for the OREC Funds, and they routinely monitor the portfolio investments. Their reviews focus on changes in economic, political or market conditions, as well as each asset's performance. OREC reviews each Investment Advisory Account's portfolios quarterly, or more frequently in the event of a material event affecting a portfolio.

OREC frequently monitors portfolio investments for events that have a material impact on its original investment thesis. Any change to an investment thesis necessitates a review by the managers of the merits of the investment.

Investors in Investment Advisory Accounts, other than Public Company Clients, generally receive quarterly unaudited financial statements and investor reports along with annual audited financial statements. In addition, a portfolio management's discussion letter regarding the results of operations, management, market environment, investment performance and other matters of an Investment Advisory Account may be sent to investors in Investment Advisory Accounts. Additional reports are available upon request.

Public Company Clients will file all reports required by the Securities Exchange Act of 1934, as amended, and the other securities laws, including quarterly reports on Form 10-Q and annual reports on Form 10-K. In addition, Public Company Clients report certain material events more frequently on Form 8-K. These reports are available on the SEC's website: www.SEC.gov. In addition, investors in Public Company Clients will receive annual reports together with audited financial statements and other information in the annual report and proxy statement for each Public Company Client.

Item 14 – Client Referrals and Other Compensation

Pursuant to the requirements of the Advisers Act, OREC utilizes the services of affiliated or unaffiliated SEC registered investment advisers, broker-dealers, and placement agents to refer Clients for its products. OREC compensates such firms for Investment Advisory Account referrals that result in the provision of investment advisory services by OREC. This compensation may be paid directly or indirectly by an Investment Advisory Account through an offset to the management fees otherwise payable by such Investment Advisory Account. Compensation under these solicitation arrangements is determined by means of an asset-based fee. Such fees do not result in additional costs to the investors. From time to time, OREC may enter into additional solicitation arrangements and may compensate persons for Investment Advisory Account referrals. All such payments will comply with Rule 206(4)-3 of the Advisers Act and other applicable securities laws.

Item 15 – Custody

Some Investment Advisory Account assets are held in custody by unaffiliated broker/dealers or banks that serve as qualified custodians; however, OREC may be deemed to have custody of the funds or securities of certain Managed Account and OREC Fund because OREC's affiliates serve as the general partner or managing members of such Managed Account or OREC Fund. Investors in these Investment Advisory Accounts will not receive statements from the custodian. Instead, each of these Investment Advisory Accounts is subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to investors in each of these Investment Advisory Accounts. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of an Investment Advisory Account's fiscal year end.

For Investment Advisory Accounts that invest in certain privately offered securities, custody rules do not require that OREC maintains securities at a qualified custodian, if the securities are

uncertificated, and ownership thereof is recorded only on the books of the issuer or its transfer agent in the name of the Investment Advisory Account, and can only be transferred with the consent of the issuer. In addition, the financial statements of OREC Funds that hold privately offered securities must be audited annually and the audited financial statements prepared in accordance with generally accepted accounting principles and distributed within 120 days of the OREC Fund's fiscal year end.

Item 16 – Investment Discretion

OREC accepts discretionary authority to manage certain Investment Advisory Accounts. Despite this broad authority, OREC is committed to adhering to the investment strategy and program set forth in the Investment Advisory Account offering materials and managed account agreements. These documents cover matters such as the types and amounts of assets of which an Investment Advisory Account's portfolio will consist, portfolio allocation limitations and the degree of risk assumed by an Investment Advisory Account's portfolio. Before accepting the discretionary authority inherent in managing an Investment Advisory Account, OREC carefully reviews the investment strategies and investment programs set out in the Investment Advisory Account's offering materials and managed account agreements.

Before accepting subscriptions for interests in an OREC Fund, OREC provides all potential investors with an offering document that sets forth, in detail, OREC's investment strategy, and program for such OREC Fund. By completing subscription documents to acquire an interest in one of the OREC Funds, investors give OREC complete authority to manage their investments in accordance with the offering document they each received.

Prior to providing investment advice to a Managed Account, OREC may require a Managed Account client to appoint OREC as agent and attorney-in-fact of its portfolio. In this way, OREC receives limited power of attorney that permits it to buy and sell any investment that OREC determines, subject to any limitations that may be imposed in such client's managed account agreement. In some cases, Managed Account clients may retain discretionary authority.

Item 17 – Voting Client Securities

OREC generally invests Investment Advisory Account assets in debt securities or companies that issue non-voting securities; therefore, OREC does not often receive proxies and is not called upon to vote proxies. However, if a company in which OREC invests Investment Advisory Account assets solicits proxies from its investors, OREC will vote its proxies according to its proxy voting policy. OREC's primary consideration in voting portfolio proxies would be the financial interests of the specific Investment Advisory Account.

One of the primary factors OREC considers when determining the desirability of investing in the securities issued by a particular company is the quality and depth of its management. Accordingly, OREC believes that the recommendation of management on any issue should be given substantial weight in determining how proxy issues are resolved. As a matter of practice, OREC will vote on most issues presented in a proxy statement in accordance with the position of the company's management, unless OREC determines that voting in accordance with management's

recommendation would adversely affect the investment merits of owning the stock. However, OREC will consider each issue on its own merits, and will not support the position of the company's management in any situation where, in OREC's judgment, it would not be in the best interests of the Investment Advisory Account to do so.

In reviewing proxy statements, OREC will seek to identify any potential conflict of interests with the issuing company. Conflicts of interest will be presented in certain situations, for example, where OREC maintains a significant business relationship with the company, or where OREC or its personnel have significant personal or family ties to the company. Once identified, OREC will determine on a case-by-case basis if the conflict is material. If material, OREC will determine, in light of all the facts then currently available, the manner by which to proceed in the best interest of the Investment Advisory Account. This may, or may not, include abstention from voting the proxy. OREC will document its decision making process with respect to resolving material conflicts of interest. In addition to the foregoing, if any conflict of interest arises in connection with voting Investment Advisory Account securities, OREC observes the following guidelines:

- OREC normally votes to maintain or create a majority of independent directors on a board of directors as a whole as well as on its audit, compensation, and nominating committees.
- OREC normally votes to limit an auditor's engagement solely to the provision of tax and audit work.
- OREC votes to limit the total compensation of management to a level that is appropriate with its performance.
- OREC normally vote against poison pills, different classes of stock and other methods designed to insulate management from the desires of their shareholders. (A poison pill is a strategy that corporations use to discourage hostile takeovers by making their stock appear less attractive to potential acquirers.)
- OREC normally votes in accordance with actions taken to maximize the company's long-term value with-out regard to "social responsibility" issues, except to the extent that those issues affect the long-term value of the business.

There may be limited situations in which OREC does not have the authority to vote Investment Advisory Account proxies in a certain manner. Upon request, Investment Advisory Account investors can obtain (i) a copy of OREC's proxy voting policies and procedures, and (ii) information concerning proxy votes on behalf of Investment Advisory Accounts. OREC maintains the following records relating to proxy voting in its office:

- Copies of OREC's proxy voting policies and procedures and any amendments.
- Proxy statements received for Investment Advisory Account securities.
- Records of proxy votes cast on behalf of Investment Advisory Accounts.

Item 18 – Financial Information

Registered investment advisers are required to provide certain financial information or disclosures about their financial condition. OREC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.