

**Disclosure Brochure**  
**(Form ADV, Part 2A)**

Starwood Capital Group Management, L.L.C.

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**This brochure provides information about the qualifications and business practices of Starwood Capital Group Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at (203) 422-7700 or [mguttin@Starwood.com](mailto:mguttin@Starwood.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. That the firm is registered is not intended to, and does not, imply a certain level of skill.**

**Additional information about Starwood Capital Group Management, L.L.C. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

June 13, 2013

## Material Changes

This page discusses only the material changes to this brochure since the last annual update on March 31, 2012.

- In 2012, Starwood Capital Group Management, L.L.C. completed additional closings of Starwood Distressed Opportunity Fund IX and Insolve Global Credit Fund I, and completed the initial closings of Starwood Energy Infrastructure Fund II and Star/West Retail Fund.
- In early 2013, affiliates of Starwood Capital Management, L.L.C. launched Starwood European Real Estate Finance Limited, a publicly-traded vehicle in the United Kingdom that is offered to certain institutional investors in the United States pursuant to private placements under Regulation D of the Securities Act of 1933, as amended, and operated in the U.S. pursuant to an exemption from registration under the Investment Company Act of 1940, as amended.

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## 1. Advisory Business

Starwood Capital Group Management, L.L.C. (“SCGM”), in business since 1993 (as a successor to Starwood Capital Group I, L.P.), provides investment advisory services primarily to real estate investment vehicles, including real estate investment trusts (“REITs”). The investment funds that SCGM advises through various affiliated general partners, member managers and other managers (each referred to herein hereafter as a “Starwood affiliate”) invest in general partnerships, limited partnerships, or limited liability companies that, in turn, hold real estate-related assets, energy assets or consumer insolvency assets, as described below in greater detail. In this Brochure, “investment funds” is used to designate the private real estate and other types of investment vehicles advised by SCGM or a Starwood affiliate unless otherwise noted.

SCGM is registered pursuant the U.S. Investment Advisers Act of 1940, as amended (“Advisers Act”), with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser [SEC File No.: 801-56403], and, because it has its principal place of business in Greenwich, Connecticut, it makes annual notice filings with the State of Connecticut.

Barry S. Sternlicht is the Chairman and CEO of SCGM and is its ultimate controlling owner. SCGM is part of Starwood Capital Group (“Starwood”). Starwood is a privately held private equity firm founded by Mr. Sternlicht in 1991 that primarily specializes in real estate and real estate-related investments.

Pursuant to an Investment Advisory Agreement, dated August 17, 2009, SCGM also advises SPT Management, L.L.C. (“SPT Management”), which manages the day-to-day activities of Starwood Property Trust, Inc. (“Starwood Property Trust”), a publicly traded finance company structured as a REIT. For Starwood Property Trust, SCGM primarily recommends investments in real estate interests, including public and private mortgage debt instruments, triple-net leases, REIT equity securities, and the equity or debt securities of public real estate companies. SCGM’s recommendations also pertain to real estate assets that do not involve securities.

SCGM provides advisory services to its affiliate, Starwood European Finance Partners Limited, which, in turn, serves as the management company to Starwood European Real Estate Finance Limited (“Starwood Europe”), a publicly-traded vehicle in the United Kingdom that is offered to certain institutional investors in the United States pursuant to private placements under Regulation D of the Securities Act of 1933, as amended, and operated in the U.S. pursuant to an exemption from registration under the Investment Company Act of 1940, as amended. There is no public market for shares of Starwood Europe in the United States. Starwood Europe focuses making real estate debt investments (including debt instruments) in the United Kingdom and Continental Europe.

On a more limited basis, SCGM provides advisory services to certain private funds that invest in non-real estate opportunities, including investments in the equity securities of start-up companies in infrastructure projects or consumer insolvency assets. Starwood Energy Group Global, L.L.C. (“SEG”), a Starwood affiliate, manages Starwood Energy Infrastructure Fund I, L.P. (“SEIF I”) and Starwood Energy Infrastructure Fund II, L.P. (“SEIF II”), energy funds that invest primarily in energy-related assets, such as assets attributable to transmission, distribution, gas storage and

power generation in energy-constrained markets and includes debt and equity investments in primarily energy-related enterprises and mezzanine loans. SCGM provides investment advisory services to SEIF I and SEIF II via investment advisory agreements. SCGM also manages InSolve Global Credit Fund I, LP (“InSolve”), an investment fund that seeks to invest in consumer insolvency assets.

As of December 31, 2012, SCGM managed \$18,697,210,717 of regulatory assets under management, as calculated for and reported in Item 5F of Part 1A of Form ADV, on a discretionary basis. No client assets are managed on a non-discretionary basis.

For certain disclosure purposes or in cases where the Advisers Act requires a look through of an investment fund, the firm may look through the fund structure to the investor as if the investor were a client. For example, in assessing carried interest, SCGM and its affiliates must comply with Rule 205-3 under the Advisers Act. In order to permissibly assess carried interest, each investor in a private investment fund must be a “qualified client.” The firm also discloses in its Part 1A and below the types of investors that invest in Starwood-sponsored investment funds advised by SCGM.

## **2. Fees and Compensation**

SCGM receives a base management fee for its services.

SCGM management fees may vary according to the amount or value of the real estate, real estate-related or other assets owned by the investment fund. In addition, a Starwood affiliate may receive a carried interest allocation entitling it to a prescribed portion of the fund’s or REITs’ profits. The agreements governing the investment fund or REIT, such as a limited partnership agreement or registration statement in the case of Starwood Property Trust, disclose the nature of the carried interest and management fees to the investors prior to their commitment or investment. Management fees are assessed quarterly in advance, but in no case are fees paid more than six months in advance. SCGM or its affiliates and the investment funds may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing, a fund’s governing documents, including provisions relating to the carried interest or management fees.

Investment funds also can be subject to asset management fees which apply to each particular asset acquisition by an investment fund.

Expenses can include custody and transaction fees for the custody of client assets and brokerage or other transaction fees in connection with any underlying portfolio transactions, such as cash management transactions, on behalf of clients. Additionally, investment funds may bear organizational and offering expenses, certain operational expenses (including phone, printing, industry and transaction research and sourcing expenses, email hosting, disaster recovery, software and other related computer and internet expenses), certain insurance expenses, professional expenses, such as attorney’s and accounting fees and expenses, and taxation expenses and other expenses authorized under the governing documents of the investment fund.

### **3. Performance-Based Fees and Side-By-Side Management**

As noted in Item 2 above, the Starwood affiliates may receive carried interest entitling them to a portion of the profits of the particular investment fund or REIT. These profit incentives are considered performance fees for purposes of SEC rules (Rule 205-3). Rule 205-3 subjects these rules to investor eligibility conditions as a “qualified client” based on measures of financial sophistication. Carried interest payments have been structured to comply with Rule 205-3 under the Advisers Act.

In any particular strategy, there may be differences in the structure of the carried interest. Differences in the performance fee structure could create potential conflicts in that a Starwood affiliate could have greater incentive to favor investment fund structures having the most profitable performance fee structure versus other investment fund structures that have a lower or no performance fee structure. These potential conflicts, however, are practicably mitigated by various limitations common to private equity structures. For example, allocations of investment opportunities are subject to organizational limitations on the creation of successor investment funds. That is, before Starwood may permissibly raise a new investment fund, a predecessor fund must be substantially committed. Additionally, Starwood-sponsored investment funds may be limited to the types of investment opportunities based on the particular sector investing designated for that investment fund.

### **4. Types of Clients**

As noted in Item 1 above, SCGM’s clients are the investment funds or REIT that it advises pursuant to an investment advisory agreement between it and the Starwood affiliates. Other than the public REIT – Starwood Property Trust – and the public UK vehicle – Starwood Europe – investors in the investment funds include various institutional investors and high net-worth individuals, many of which have had longstanding relationships with Starwood. The institutions that typically invest in a Starwood-sponsored investment fund include financial institutions, corporations, sovereign wealth funds, endowment funds, charitable organizations, private and public pension funds and other investment funds.

### **5. Methods of Analysis, Investment Strategies, and Risk of Loss**

#### *Investment Analysis and Strategy*

SCGM makes investment recommendations to its clients predominantly in the real estate sector. With respect to SEIF I and SEIF II, SCGM, through SEG, makes investment recommendations in the energy sector. With regard to InSolve, SCGM makes investment recommendations with respect to consumer insolvency assets. It also may make recommendations in cash management instruments from time to time. As adviser to Starwood Property Trust, SCGM renders advice as to certain “target assets.” Target assets would include commercial mortgage loans and other commercial debt instruments, commercial mortgage-backed securities, net-leased properties and other real estate-related assets, as well as residential mortgage-backed securities and mortgage loans.

In the case of investment funds, investment recommendations include mortgage debt instruments, publicly traded REIT equity and the public or private equity or debt of public real estate companies. SEIF I and SEIF II investment recommendations include investments in energy-related assets, such as assets attributable to transmission, distribution, gas storage and power generation in energy-constrained markets. InSolve investment recommendations include investments in pools of credit card and other unsecured and secured consumer loans where the debtor and its assets are subject to a formal bankruptcy, insolvency or other contractually rescheduled payment plan.

In formulating its investment recommendations, SCGM uses fundamental, cyclical, and technical methods of analysis. With respect to mortgage debt securities recommendations, SCGM will analyze the underlying collateral, including the fair market value, physical condition, projected cash flow and interest coverage, competitive position in the relevant market, and the abilities of the asset or property manager. Lastly, for certain real estate investments, SCGM will review industry periodicals and newsletters, meet with or interview local industry experts and local asset and property managers and professionals.

In the energy sector, SCGM and certain Starwood professionals rely on the expertise and professional relationships developed in the energy industry. SEG and SCGM implement a strategy that seeks diversification to the extent practical and a mitigation of concentration risk in respect of the management and advice to SEIF. A strategy of entering into bi-lateral contracts and investment in liquid market instruments, all of which fit within the strategy of investing in assets with identifiable and executable commodity risk management tools, are intended to manage commodity risks relevant to the energy sector.

In the consumer insolvency asset sector, SCGM relies on a team of seasoned investment professionals with expertise and strong relationships in the consumer debt investment business. With respect to investment in consumer insolvency assets, SCGM will conduct rigorous analysis of local consumer bankruptcy and debt collection laws prior to making an investment recommendation in a particular jurisdiction.

## *Risks*

Very generally, investing in securities and other investment assets involve risk of loss of the principal amount invested. Clients and investors should be prepared to bear any risk of loss. Investing in the real estate sector, the energy sector and in privately offered securities may raise unique investment risks, as summarized below. The risk summary contained herein is intended solely as a summary and is not an exhaustive list of risk. Risks associated with each investment fund and REIT is described in offering documents or public registration statements. Those documents also disclose potential risks for each investment fund or REIT in greater and more particularized detail than the summary set forth below.

- The firm's investment strategies and expertise rely on key professionals. The departure of any of these key professionals from Starwood could adversely impact the performance of an investment fund or REIT.
- Failure of investors to fund commitments when due can adversely affect an investment fund's ability to complete its investment program and, if substantial defaults on commitments, to continue operations.
- Real estate, energy infrastructure and consumer insolvency asset investing can include the use of leverage which, among other things, can increase the risk of loss during unfavorable economic conditions.
- Assets held by investment funds, and the interests in the investment funds themselves, can be illiquid, thus making them hard to value and liquidate, particularly in a falling market. Additionally, interests in investment funds are subject to restrictions on transfer pursuant to the Securities Act.
- Risk of loss associated with mortgage loans and mortgage-backed securities. These instruments are subject to default, foreclosure timeline extension, fraud and commercial and residential price depreciation, unfavorable modification of loan principal amount and interest rate and amortization of principal. Any of the foregoing events can result in investment losses.
- Prepayment risk. To the extent assets may be backed by mortgage instruments, prepayment can adversely affect the value of the underlying real estate portfolio.
- Some mortgage-related instruments may include distressed opportunities, which can increase the potential for risk of loss.
- There are risks related to a real estate investment vehicle's organization whether it be limitations prescribed by the 1940 Act in the case of a private fund or even a public REIT, or tax limitations in the case of a REIT structure.



- Investment strategies and analysis may not accurately project targeted returns because the considerations and assumptions underlying any projected returns are subject to uncertainty.
- Real estate, because it is generally considered a long-term investment, may be subject to risks not associated with investments in more liquid assets. For instance, real estate may experience fluctuations and cycles in value during any holding period. Some factors attributable to the marketability and value of real property include, but are not limited to the following: (i) changes in general or local economic conditions; (ii) changes in supply or demand for the particular property type; (iii) fluctuations in occupancy and rents for real property; (iv) changes in interest rates; (v) government regulation related to land-use and zoning, environmental protection and occupational safety; (vi) unavailability of mortgage funds, making property disposition difficult; (vii) the financial condition of consumers of real property; (viii) insurance coverage; and (ix) natural disasters and threat of terrorism.
- Environmental risk. Real estate and energy infrastructure investment is subject to certain environmental risks associated with environmental claims, environmental regulations and occupational safety issues and concerns.
- Energy risk. Energy infrastructure assets are subject to significant energy commodity risks, including price, volumetric and spread risk. These particular risks, although sought to be managed as noted above, can create reduced or volatile returns to investors.
- Energy regulations. Energy generation, transmission and distribution are heavily regulated. Energy regulations are subject to change, which can impact the financial condition of energy infrastructure assets.
- Changes in insolvency laws. Consumer insolvency assets can be substantially affected by any changes in the insolvency laws in a jurisdiction in which such assets are acquired. With respect to prospective changes in insolvency laws, consumer insolvency assets may be protected by the contractual terms governing the transaction. However, if the laws are changed retroactively, or such protections are not negotiated, this could have an adverse effect on the yields of such assets being acquired.
- Debtor performance in repayment plans. As a debtor must generally have a recurring source of income when entering into a repayment plan, an important economic factor affecting subsequent performance is the debtor's remaining employed or continuing to earn income. Therefore, an increase in unemployment among the debtors in repayment plans relating to consumer insolvency assets would likely have an adverse effect on the performance by such debtors and thus on the returns of the related assets.

- Concentration risk. Real estate, energy infrastructure and consumer insolvency asset investing may lack a diversified pool of assets compared to other types of investment funds that trade in publicly traded securities.
- Currency exchange risk. Typically, distributions from and contributions to an investment fund are denominated in U.S. dollars. Investments, however, may be denominated in currencies other than the U.S. dollar. Therefore, the value of these non-U.S. dollar denominated investments will depend in part on the strength of the U.S. dollar, and the value of dividends, interest and gains and losses can be adversely affected by fluctuating currency exchange rates.
- Counterparty credit quality. Investment funds can have assets tied to long-term contracts the performance of which will be dependent on the credit quality of the counterparties. Defaults by such counterparties could adversely affect the value of these assets.

The investment funds do not engage in frequent trading of portfolio assets in the manner of a trading fund, such as a hedge fund or mutual fund.

## **6. Disciplinary Information**

Neither SCGM nor any of its professionals have been the subject of any legal or disciplinary event of an investment-related nature that would be material to the business of SCGM or that would be subject to disclosure in Item 11 of Part 1A of Form ADV.

## **7. Other Financial Industry Activities and Affiliations**

SCGM has investment advisory agreements with affiliated general partners, member managers and other managers, including SPT Management. An affiliated broker-dealer, Starwood Capital, L.L.C. ("SC"), acts as a dedicated placement agent for the private offer and sale of interests in certain of the investment funds advised by SCGM. SCGM, not the fund or investor, reimburses SC for its expenses for acting as placement agent; SC does not receive commissions or other transaction fees for its services. SC does not execute any portfolio trades of any investment fund or REIT.

Certain management persons of SCGM are associated persons of SC. Specifically, Mr. Jerome Silvey (CRD No.: 4379503) is the Chief Financial Officer and Executive Vice President of SCGM and is qualified under a Series 82 license for SC. Mr. Silvey maintains a registration with SC in respect of its fund-raising efforts for Starwood's investment funds. Mr. Boyd Fellows, a Managing Director of SCGM, also is an associated person of SC (CRD No.: 1850036) and may be used for fund-raising purposes where SC has been engaged as a placement agent. Mr. Fellows is qualified under Series 24, 7 and 63 licenses. Also, Mr. Matthew Guttin (CRD No.: 5801291) serves as the Chief Executive Officer and Chief Compliance Officer of SC and maintains Series 24 and 7 licenses in this respect. Mr. Guttin is also the Chief Compliance Officer of SCGM. Mr. Guttin's role with SC, and SCGM for that matter, is solely to provide legal and compliance services, as well as oversee the limited operations of SC. He does not

participate in any fund-raising activities. Mr. Guttin also is associated with the law firm of Rinaldi, Finkelstein & Franklin, L.L.C. (“RFF”), which has an arrangement with Starwood, as more fully described below.

An affiliated investment adviser, Starwood Real Estate Securities, L.L.C. (“SRES”), provides more traditional portfolio management advice to its own clients by effecting securities buy and sell recommendations. SRES has a wholly owned subsidiary, SRE Securities Canada, Inc., which is an investment adviser registered with the Ontario Securities Commission. SCGM’s relationship with SRES is discussed more fully below under “Brokerage Practices.” No management professionals of SCGM are employed by SRES; however, Mr. Barry Sternlicht, the Chairman and CEO and ultimate owner of SCGM, is a majority owner of SRES.

SCGM shares office facilities with SC, SRES and RFF, an independent law firm that provides legal services to Starwood. Although in the same building, SRES is in a segregated area of the building dedicated to its operations. Mr. Ellis Rinaldi, SCGM’s Executive Vice-President and Co-General Counsel, is a principal of RFF. Legal fees of RFF are charged to the investment funds for services performed in accordance with the fund’s disclosure and operating documents. These documents are delivered to investors prior to their investment in the funds.

## **8. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

SCGM has adopted a Compliance Manual that addresses its particular business and compliance obligations under the Advisers Act. The Compliance Manual includes a code of ethics and addresses topics such as: (i) basic standards of conduct for personnel and SCGM; (ii) managing actual and potential conflicts of interest; (iii) affiliated transactions, joint investments, allocation, valuation, and the role of the Advisory Committee in applicable contexts; (iv) illegal insider trading and misuse of client confidential information; (v) gift policies; and (vi) compliance with custody, advertising, recordkeeping, and disclosure obligations. The Compliance Manual is available to clients upon written request.

Typically, Starwood will have a general partnership or member manager interest in the investment funds advised by SCGM. Insiders and affiliates may have ownership interests in some the investments recommended by SCGM, and Starwood typically invests at least one percent of the total equity investment required to purchase real estate-related assets as a co-investment along side SCGM’s clients. Starwood insiders also may invest in assets in the same sector as an investment fund. Practically speaking, however, the size of investments allocated to an investment fund would be of sufficient size to make individual investing in the same asset uncommon or impractical. In any case, personal investing in the same sector is subject to the firm’s compliance policies and monitoring for conflicts of interest. In addition, affiliates of SCGM may enter into service arrangements with the investment funds advised by SCGM.

These arrangements present conflicts of interest and are disclosed to potential investors in disclosure documents delivered prior to investment. Depending on the facts and circumstances, the governing documents of an investment fund may set forth restrictions on conflicts of this nature. In the case of Starwood Property Trust, approval of a majority of the independent

directors would be required for: (i) any purchase of the assets of Starwood Property Trust by Starwood; and (ii) any purchase of Starwood's assets by Starwood Property Trust. Further, due to certain exclusivity provisions, Starwood Property Trust may not invest in assets that Starwood may invest in for a prescribed period.

Service arrangements between a fund advised by SCGM and Starwood are required to be pursuant to terms documented in written agreements that describe the services to be provided and the fees to be assessed. The terms and conditions of these written agreements must be at arm's length and on terms at least as favorable to the fund as would be the case if the service agreement were with an independent provider. In certain circumstances, the governing documents of funds require approval by an Advisory Committee, which is comprised of investors who are not affiliated with Starwood.

SCGM's Compliance Manual addresses conflicts of interest and the method of managing potential conflicts that may arise in the case of, among other things: (i) affiliated transactions; (ii) joint investments; (iii) allocating investment opportunities; (iv) valuation of assets; and (v) use of an affiliate (SRES) to place certain portfolio trades.

## **9. Brokerage Practices**

SCGM has the authority, without obtaining specific client consent, to buy or sell securities, to determine the amount of securities to be bought or sold, and to determine which broker or dealer is to be used to execute any securities transaction. When evaluating the quality of trade execution, SCGM considers price, speed, anonymity, and the ability of the broker-dealer to find financial intermediaries with significant trading capabilities. SCGM plays an advisory role in connection with the selection of investment banks, broker-dealers, banks, and markets for fund portfolio transactions.

As noted above, SCGM does not use its affiliated broker-dealer, SC, to execute portfolio trades or cash management investments of any investment fund or REIT. SC acts from time to time as placement agent to the private real estate investment funds in connection with the private offer of interests pursuant to a private offering exemption of the Securities Act. As discussed in Item 7 above, SC is paid its allocable costs and expenses by SCGM for its services. The source of these payments is derived from the portion of the management fee the Starwood affiliates pay SCGM in respect of SCGM's costs.

Pursuant to written agreements between SCGM and SRES, SRES provides discretionary investment services, including trade execution, to the funds advised by SCGM when those investment funds engage in portfolio trades of public securities. The agreements grant broad discretionary authority and responsibility to SRES, but SRES has agreed to exercise that authority only as specifically instructed and directed by SCGM, until further notice from SCGM. Not all advisers require their clients to direct investment services to a particular provider but, in certain cases, SCGM has determined that the investment banking and brokerage trading relationships that SRES has established can be beneficial to SCGM's clients. Depending on the circumstances, SCGM may recommend other brokers, dealers, and banks for purposes of executing portfolio trades or for cash management purposes. SRES is not paid fees for placing

orders on behalf of SCGM. SCGM monitors SRES and periodically reviews the performance and execution quality of financial intermediaries selected by SRES. SCGM's monitoring includes reviewing, among other things, transaction runs of portfolio trades entered through the SRES trading desk.

SCGM does not receive research or other products or services in connection with the portfolio trades of its clients, and SCGM does not consider the receipt of client referrals in selecting broker-dealers. Additionally, SCGM has no directed brokerage arrangements.

## **10. Review of Accounts**

SCGM actively monitors and manages the assets and the performance of the investment funds that it advises, as well as potential exit strategies and other means of adding value to the investors with respect to fund assets. Real estate asset managers monitor properties on an ongoing basis for purposes of reporting to the firm's Managing Directors and senior professionals and making recommendations as to particular properties. Reviews are incorporated into quarterly reports to investment fund limited partners. These reports contain fund financial information and summaries, performance, current investments, recent acquisitions, fund portfolio activity and detailed investment activity.

On a quarterly basis, SCGM issues an interim written report to investors. These reports typically include a reasonably detailed report of revenues and expenses for the quarter, market developments that might impact the value of the investment fund's underlying investments, the status of other investors whose capital might compete with the investor's capital, and trends in the debt and equity capital markets that might cause new exit strategies to become available or that might enable investors to reduce their equity investment through debt refinancing.

Following the end of each fund's fiscal year, SCGM delivers an audited, written annual report, which typically includes financial statements prepared in accordance with generally accepted accounting principles (GAAP), a report of the activities of the fund during the year, a schedule and description of the investments owned, a description of investments acquired or disposed of during the year. The annual report is prepared and the delivery of it are intended to comply with the SEC's custody rule, as described in more detail in Item 12 below.

Starwood also generally holds annual or semi-annual limited partnership meetings to review with investors the investments made on their behalf.

SCGM, together with SPT Management, follows a similar review and monitoring process for Starwood Property Trust, as well as a robust reporting process in order for Starwood Property Trust to satisfy its reporting obligations as a public company.

## **11. Client Referrals and Other Compensation**

SCGM does not compensate any third party for client referrals directly to it for advisory services and does not receive any economic benefit from a third party for providing investment advice or

other services to its clients. Thus, it has no cash solicitation arrangements subject to the SEC's cash solicitation rule, Rule 206-3 under the Advisers Act.

Starwood does enlist the services of private placement agents in respect of the offering of interests in an investment fund. These placement agents include unaffiliated placement agents. Additionally, SC also acts from time to time as placement agent of the interests in a Starwood-sponsored investment fund. The fees paid to SC in this respect have been described in Item 7 above. Private placement arrangements with affiliated or unaffiliated broker-dealers are not considered a cash solicitation arrangement subject to Rule 206-3 in reliance on a staff no-action letter of the SEC.

## **12. Custody**

SCGM itself does not have custody of client funds or securities, but the Starwood affiliates do have custody. Because of the affiliation of SCGM with the affiliated general partners, member managers and other managers, all of which have custody, the SEC's custody rule – Rule 206(4)-2 under the Advisers Act – applies to the custody over client funds and securities.

The Starwood affiliates maintain cash at “qualified custodians” (e.g., banks) but rely on an exception available to “pooled investment vehicles” from various reporting and surprise audit obligations imposed by the SEC's custody rule. This exception requires the firm to engage an independent public accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board (“PCAOB”) and to distribute audited annual financial statements, prepared in accordance with GAAP, to fund investors within a prescribed period.

The firm has engaged PricewaterhouseCoopers LLP (“PWC”) and Deloitte and Touche LLP (“Deloitte”) as its independent public accounting firm for these purposes. PWC and Deloitte have confirmed to SCGM that they are members of the PCAOB and are routinely examined by it. PWC and Deloitte also have confirmed that annual audited financial statements are prepared in accordance with GAAP. Neither SCGM nor the Starwood affiliates self-custody client funds or securities.

## **13. Investment Discretion**

SCGM accepts discretionary authority to manage the assets of the investment funds and REITs that are its clients. The firm's discretion is limited by the investment guidelines and conditions contained either in its investment advisory agreement with each fund or REIT and/or the in the operating agreements of the fund or REIT. The parameters of these guidelines can vary from client to client, but all investors receive disclosure of investment guidelines and client operations prior to their commitment to a fund or are disclosed in public disclosure documents of the REIT.

Grants of discretionary authority typically will be part of the organizing documents of the investment fund or REIT. The authorization permitting discretionary authority is extended to the Starwood affiliates directly and, because of the degree of overlap with the Starwood affiliates, by extension to SCGM indirectly.

## **14. Voting Client Securities**

The Starwood affiliates generally have the authority to manage the Starwood-sponsored investment funds and REITs. In this regard, they are responsible for all aspects of the management and operation of the client. To date, none of the Starwood affiliates has delegated proxy voting obligations to SCGM.

Due to the close affiliations with the Starwood affiliates, the firm's Compliance Manual contains a section on proxy voting procedures. Very generally, a broad fiduciary principle is extended to the proxy voting process, requiring the Starwood affiliates to act prudently and consistent with their fiduciary duties. These procedures, among other things, require the Starwood affiliates to monitor any vote to identify potential conflicts of interest.

## **15. Financial Information**

No financial condition is reasonably likely to impair SCGM's ability to meet contractual commitments to clients. Neither SCGM nor Starwood assesses any fees more than six months in advance.