

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION
PART 2A: FIRM BROCHURE

C-III INVESTMENT MANAGEMENT LLC

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DATE OF BROCHURE: MARCH 31, 2014

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This Brochure provides information about the qualifications and business practices of C-III Investment Management LLC (“**C-III IM**”) and certain of its subsidiaries and affiliates that are either (a) considered “relying advisers” in accordance with the Letter dated January 12, 2012 from the SEC’s Office of Investment Adviser Regulation, Division of Investment Management to the American Bar Association, Business Law Section (“**2012 SEC Letter**”) or (b) organized as general partners or managing members of its collective investment vehicle clients and are relying on C-III IM’s registration as an investment adviser in accordance with the Letter dated December 8, 2005 from the SEC to the American Bar Association Subcommittee on Private Investment Entities (“**2005 SEC Letter**”) and the 2012 SEC Letter (all such subsidiaries and affiliates, together with C-III IM, collectively, “**C-III**”). If you have any questions about the contents of this Brochure, please contact Lawrence Block, C-III’s Chief Compliance Officer, directly at (212) 705-5090 or by e-mail at lblock@c3cp.com.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

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

Registration as an investment adviser does not imply a certain level of skill or training.

ITEM 2: MATERIAL CHANGES

The material changes to this Brochure since C-III's previous Brochure dated June 26, 2013 are as follows:

- including C-III HY Directives III LLC ("**HY Directives III**") as (i) an adviser relying on the registration of C-III IM under the 2005 SEC Letter and (ii) the general partner of C-III High Yield Real Estate Debt Fund III L.P. ("**HYREDF III**");
- including HYREDF III as an advisory client of C-III IM and related disclosures regarding HYREDF III, such as fees;
- removing JER Debt Co-Investment Advisors, L.P. ("**JER Debt Fund Advisors**") as (i) a Relying Adviser of C-III IM under the 2012 SEC Letter and (ii) the general partner of JER US Debt Co-Investment Vehicle, L.P. ("**JER Debt Fund**").
- removing JER Debt Fund as an advisory client of C-III IM and related disclosures regarding JER Debt Fund, such as fees;
- removing JER Debt Fund Advisors as a commodity pool operator;
- including HY Directives III as a commodity pool operator;
- updating C-III's number of clients and aggregate regulatory assets under management;
- updating and revising certain material risks (including decline in real estate values, uninsured losses, environmental risks, real estate debt investments, B-Notes, commercial mortgage backed securities, mezzanine loans, diversification, credit ratings, leverage and counterparty risk) and adding additional material risks (including type and use of properties, alternative uses of properties, significant tenant ceasing to operate at a retail property, competition from alternative retail distribution channels, investments in net lease properties, costs of compliance with the Americans with Disabilities Act, LIBOR, credit facilities, forward-looking statements, regulatory changes, derivatives, general market risks and various conflicts of interest); and
- revising the Code of Ethics section by moving the discussion of restrictions on gifts and entertainment, outside business activities, and political contributions and the prohibition on misappropriation of material, non-public information and "pay-to-play" to a new Supervised Person Conduct section.

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ITEM 3: TABLE OF CONTENTS

	PAGE
PART 2A – BROCHURE	
ITEM 1: COVER PAGE	1
ITEM 2: MATERIAL CHANGES	2
ITEM 3: TABLE OF CONTENTS (THIS PAGE)	3
ITEM 4: ADVISORY BUSINESS	4
ITEM 5: FEES AND COMPENSATION	8
ITEM 6: PERFORMANCE-BASED FEES AND SIDE BY SIDE MANAGEMENT	12
ITEM 7: TYPES OF CLIENTS	12
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	13
ITEM 9: DISCIPLINARY INFORMATION	40
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	40
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	44
ITEM 12: BROKERAGE PRACTICES	46
ITEM 13: REVIEW OF ACCOUNTS	48
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION	48
ITEM 15: CUSTODY	49
ITEM 16: INVESTMENT DISCRETION	49
ITEM 17: VOTING CLIENT SECURITIES	50
ITEM 18: FINANCIAL INFORMATION	50
ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS	51
MISCELLANEOUS: ADDITIONAL INFORMATION	51
PART 2B - BROCHURE SUPPLEMENTS	

ITEM 4: ADVISORY BUSINESS

A. BACKGROUND

C-III Investment Management LLC (“**C-III IM**”), a Delaware limited liability company, is an SEC-registered investment adviser that began providing investment advisory services in 2011. It is wholly-owned by C-III Capital Partners LLC (“**C-III Parent**”), a Delaware limited liability company. C-III Parent was formed in 2010 and owns a number of operating entities (in addition to C-III IM) that are engaged in the business of owning, controlling, operating, managing, servicing and providing other services related to real estate and real estate-related assets. (The operating companies owned by C-III Parent that are engaged in the financial services industry are described in Item 10 below.) C-III Parent is controlled, indirectly, by Island Capital Group LLC (“**ICG**”), a Delaware limited liability company of which Andrew L. Farkas is the managing member. ICG is a private real estate merchant banking firm formed in 2003.

B. TYPES OF ADVISORY SERVICES OFFERED

C-III IM

C-III IM serves as (i) investment manager to various collective investment vehicles (or investment advisor to the general partner, managing member or investment manager of such collective investment vehicles) that invest in real estate and real estate-related debt and/or equity investments (each, a “**C-III IM Fund**”), (ii) collateral manager for various issuers of collateralized debt obligations (each, a “**Managed CDO**”) and (iii) collateral administrator for various issuers of collateralized debt obligations (each, a “**Static CDO**”).

RELYING ADVISERS

Certain affiliates of C-III IM (each, a “**Relying Adviser**”) also provide investment advisory services, as follows:

- (a) C-III JERIT Manager LLC (“**JERIT Manager**”), a wholly-owned subsidiary of C-III IM, serves as the external manager for JER Investors Trust Inc., a real estate investment trust (“**JERIT**”);
- (b) CRE CDO Manager LLC (f/k/a JER 2006 Manager LLC) (“**CRE CDO Manager**”), a wholly-owned subsidiary of C-III IM, serves as the collateral administrator for a collateralized debt obligation (“**JER 2006 CDO**”) issued by JERIT; and
- (c) JERIT serves as the collateral administrator for a collateralized debt obligation (“**JER 2005 CDO**”) issued by it.

The Relying Advisers (i) comprise the C-III group of “Relying Advisers,” (ii) provide, are deemed to provide or have the authority to provide investment advisory services through C-III IM’s single advisory business and (iii) are relying on C-III IM’s registration with the SEC, in accordance with the Letter dated January 12, 2012 from the SEC’s Office of Investment Adviser Regulation, Division of Investment Management to the American Bar Association, Business Law Section (“**2012 SEC Letter**”). See also “Miscellaneous; Additional Information” below.

OTHER ADVISERS RELYING ON THE REGISTRATION OF C-III IM

Certain other affiliates of C-III IM (each, an “**Affiliate**”) serve as general partner, managing member and/or investment manager of the C-III IM Funds, as follows:

- (a) C-III RFI Directives LLC (“**RFI Directives**”), a wholly-owned subsidiary of C3MM Holdings LLC (“**C3MMH**”), which in turn is a wholly-owned subsidiary of C-III Parent, serves as the general partner of C-III Recovery Fund I L.P. (“**RF I**”);
- (b) C-III RF Directives II LLC (“**RF Directives II**”), a wholly-owned subsidiary of C3MMH, serves as the general partner of C-III Recovery Fund II L.P. (“**RF II**”);
- (c) C-III HY Directives I LLC (“**HY Directives I**”), a wholly-owned subsidiary of C3MMH, serves as the general partner of C-III High Yield Real Estate Debt Fund I L.P. (“**HYREDF I**”);
- (d) C-III HY Directives III LLC (“**HY Directives III**”), a wholly-owned subsidiary of C3MMH, serves as the general partner of C-III High Yield Real Estate Debt Fund III L.P. (“**HYREDF III**”);
- (e) C3 CRESS Directives LLC (“**CRESS Directives**”), a wholly-owned subsidiary C3MMH, serves as the managing member of LCCG Real Estate Special Situations Mortgage Fund, L.L.C. (“**CRESS Fund**”);
- (f) CUCA LLC (“**CUCA**”), a wholly-owned subsidiary C3MMH, serves as the managing member of CUC I, LLC (“**CUC I**”);
- (g) Island Directives III LLC (“**Island Directives III**”), an indirect subsidiary of ICG, serves as the general partner of Island Fund III L.P. (“**IF III**”);
- (h) Insignia Opportunity Directives, LLC (“**IOP Directives**”), an indirect subsidiary of IFI, serves as the general partner of Insignia Opportunity Partners L.P. (“**IOP**”);
- (i) Insignia Opportunity Directives II, LLC (“**IOP Directives II**”), an indirect subsidiary of IFI, serves as the general partner of Insignia Opportunity Partners II L.P. (“**IOP II**”); and
- (j) ICG serves as the managing member of Island Fund I LLC (“**IFI**”).
- (k) IFI serves as the investment manager of IOP and IOP II.

C-III IM serves as the investment manager to each of RF I, RF II, HYREDF I and HYREDF III and the investment adviser to each of CRESS Directives, CUCA, ICG, Island Directives III and IFI.

Each Affiliate is a Supervised Person (as defined in Item 11 below) of C-III IM and conducts its activities in accordance with the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) and the rules thereunder. Employees of each Affiliate and other affiliates of C-III IM, and other persons acting on C-III IM’s behalf, are subject to the supervision and control of C-III IM, including being subject to C-III IM’s investment adviser compliance policies and procedures. Each Affiliate is relying on C-III IM’s registration under the Advisers Act and is not registering itself in accordance with the Letter dated December 8, 2005 from the SEC to the American Bar

Association Subcommittee on Private Investment Entities (the “**2005 SEC Letter**”) and the 2012 SEC Letter.

C. OTHER SERVICES OFFERED

CRE CDO Manager serves as the collateral administrator for a commercial mortgage backed securities issuer and in such capacity provides the information required by the trustee to determine the fair value of any defaulted securities. CRE CDO Manager does not provide investment advisory services to the issuer and the issuer is not considered an investment advisory client of CRE CDO Manager or C-III.

Each reference herein to “**C-III**” shall include C-III IM, each Relying Adviser and each Affiliate. Unless otherwise indicated, each reference herein to “**CDO**” shall include a Managed CDO, Static CDO, JER 2005 CDO and JER 2006 CDO. Each reference herein to “**Fund**” shall include a C-III IM Fund and any collective investment vehicle formed in the future for which C-III IM serves as investment manager, investment adviser or other similar role. Each reference herein to “**Client**” shall include a Fund, a CDO and JERIT.

D. CLIENT INVESTMENT GUIDELINES AND PARAMETERS

FUNDS

C-III IM serves as investment manager or investment adviser to each C-III IM Fund (or an Affiliate for the benefit of its respective C-III IM Fund) pursuant to an investment advisory agreement (each, an “**Investment Advisory Agreement**”) between each C-III IM Fund (or the Affiliate) and C-III IM. C-III IM also operates in accordance with the terms set forth in the limited partnership agreement or limited liability company agreement of each C-III IM Fund, which includes specific information concerning the operation and management of such C-III IM Fund. C-III IM generally has the authority to recommend all investment decisions for each C-III IM Fund, subject to compliance with the investment criteria set forth in the governing documents of the relevant C-III IM Fund. Such criteria generally include, among other things, (i) approval by the applicable Affiliate, (ii) approval by the C-III IM Fund’s independent representative(s) (if applicable) with respect to any principal transaction between the C-III IM Fund and C-III IM or an affiliate and (iii) review and approval by the C-III IM Fund’s advisory committee (if applicable). See also Item 16 below.

C-III IM identifies investment opportunities for each C-III IM Fund and participates in the acquisition, management, monitoring and disposition of each C-III IM Fund’s investments. Except for the initial determination as to a prospective investor’s qualifications for investment in each C-III IM Fund, the individual needs of the limited partners or members in each C-III IM Fund are not considered in the management of a C-III IM Fund and are not the basis of investment decisions by C-III IM. Investment advice is provided directly to each C-III IM Fund (or the Affiliate) and not individually to the investors in a C-III IM Fund.

Each Affiliate is also deemed to provide investment advisory services to its respective C-III IM Fund.

RF II is currently engaged in a private placement offering of its limited partnership interests. In addition, a Fund may be organized in the future that may offer its interests. All other existing Funds are closed to new investors. Interests in a Fund are generally offered only to persons that



are (i) “accredited investors,” as defined in Regulation D under the Securities Act of 1933, as amended (the “**Securities Act**”) and (ii) either “qualified purchasers” or “knowledgeable employees,” each as defined in the Investment Company Act of 1940, as amended (the “**Investment Company Act**”), and the rules thereunder.

CDOs

C-III IM serves as collateral manager for each Managed CDO pursuant to a collateral management agreement among each Managed CDO, its trustee and C-III IM (each, a “**CDO Management Agreement**”). As collateral manager, C-III IM generally has the authority to make all investment decisions for each Managed CDO, subject to compliance with the investment criteria set forth in the governing documents of the particular Managed CDO. Such criteria generally include, among other things, in the case of an acquisition of an investment asset by a Managed CDO, (i) approval by such Managed CDO’s advisory committee, advisory management committee or investment management committee, as applicable, with respect to any affiliate transaction between the Managed CDO and C-III IM or an affiliate and (ii) approval by one or more rating agencies. See also Item 16 below.

C-III IM serves as collateral administrator for each Static CDO pursuant to a collateral administration agreement and/or pooling and servicing agreement among each Static CDO, its trustee and C-III IM (each, a “**CDO Administration Agreement**”). As collateral administrator, C-III IM monitors the assets of each Static CDO and notifies the trustee of any defaulted securities.

JERIT serves as collateral administrator for JER 2005 CDO pursuant to a collateral administration agreement between JER 2005 CDO and JERIT (the “**JER 2005 CDO Administration Agreement**”). As collateral administrator, JERIT generally has the authority to make all investment decisions for JER 2005 CDO, subject to compliance with the investment criteria contained in the governing documents of JER 2005 CDO. JERIT Manager will make such decisions on behalf of JERIT. See also Item 16 below.

CRE CDO Manager serves as collateral administrator for JER 2006 CDO pursuant to a collateral administration agreement between JER 2006 CDO and CRE CDO Manager (the “**JER 2006 CDO Administration Agreement**”). As collateral administrator, CRE CDO Manager generally has the authority to make all investment decisions for JER 2006 CDO, subject to compliance with the investment criteria contained in the governing documents of JER 2006 CDO. See also Item 16 below.

JERIT

JERIT Manager serves as the external manager for JERIT pursuant to a management agreement between JERIT and JERIT Manager (the “**JERIT Management Agreement**”). Pursuant to the JERIT Management Agreement, JERIT Manager, subject to the supervision and direction of JERIT’s board of directors, is responsible for providing investment advisory services to JERIT, including (i) serving as JERIT’s consultant with respect to the evaluation, purchase, origination, negotiation, structuring, monitoring and disposition of investments by JERIT, (ii) serving as JERIT’s consultant with respect to decisions regarding any financings, securitizations, hedging activities or borrowing undertaken by JERIT, (iii) coordinating and supervising various service providers for JERIT and (iv) providing certain general management services to JERIT relating to the day-to-day operations and administration of JERIT, including making investment decisions



for JER 2005 CDO, subject to compliance with the investment criteria set forth in the governing documents of JER 2005 CDO. See also Item 16 below.

E. WRAP FEE PROGRAMS

C-III does not participate in wrap programs.

F. CLIENT ASSETS UNDER MANAGEMENT

As of the date of this Brochure, C-III manages 23 Client accounts with aggregate regulatory assets under management of \$3,762,634,653 calculated as of December 31, 2013.

Except as provided herein, C-III manages each Client account on a discretionary basis, subject to any reviews and approvals as described above and in Item 16 below.

ITEM 5: FEES AND COMPENSATION

A. COMPENSATION

C-III is compensated pursuant to the terms of the Investment Advisory Agreements, the CDO Management Agreements, the CDO Administration Agreements, the JER 2006 CDO Administration Agreement and the JERIT Management Agreement. C-III's fees are paid (i) with respect to each Fund, either directly by the Fund or by such Fund's general partner, managing member or investment manager, (ii) with respect to each CDO, directly by the issuer of such CDO and (iii) with respect to JERIT, directly by JERIT. JER 2005 CDO does not pay a fee to JERIT for providing collateral administration services.

FUNDS

For RF I, C-III IM is entitled to receive an annual management fee, payable quarterly in advance, reduced on a prospective basis to an amount equal to 1.5% per annum of aggregate capital contributions of RF I's partners other than capital contributions in respect of Investments (as defined in the RF I limited partnership agreement) that have been disposed of or written off.

For RF II, C-III IM is entitled to receive an annual management fee, payable quarterly in advance, equal to (a) during the Commitment Period (as defined in the RF II limited partnership agreement), the sum of (i) 1% per annum of the uncalled aggregate capital commitments plus (ii) 1.5% per annum of the aggregate capital contributions in respect of Investments (as defined in the RF II limited partnership agreement) other than Investments (or portions thereof) that have been disposed or written off and (b) after the Commitment Period (as defined in the RF II limited partnership agreement), the sum of (i) 1% per annum of the uncalled aggregate capital commitments intended to be called with respect to any transaction in progress plus (ii) 1.5% per annum of aggregate capital contributions of RF II's partners other than capital contributions in respect of investments that have been disposed or written off.

For HYREDF I, C-III IM is entitled to receive a management fee, payable quarterly in arrears, equal to 0.1875% of the daily weighted average book value of HYREDF I's investments.

For HYREDF III, C-III IM is entitled to receive a management fee, payable quarterly in arrears, equal to 0.375% of the daily weighted average book value of HYREDF III's investments.



For IF III, Island Directives III is entitled to reimbursement for the expenses it incurs in providing advisory services to IF III and C-III IM is entitled to reimbursement for the expenses it incurs in providing advisory services to Island Directives III.

For all other Funds, the applicable Affiliate is entitled to receive a quarterly management fee (or equivalent) equal to between 0.1875% and 0.375%, payable in advance or in arrears, as applicable, based on the unreturned capital contributions of all investors in the applicable Fund or the gross value of the cost of any of the applicable Fund's investments, which may be subject to a minimum amount payable in a quarter. C-III IM, in turn, is entitled to receive a quarterly investment advisory fee, payable in advance or in arrears, as applicable, in an amount equal to between 15% and 100% of the management fee (or equivalent) received by the applicable Affiliate, which may be subject to a minimum amount payable in a quarter.

In addition, the general partner or managing member of certain Funds is entitled to receive a carried interest (or promote) in such Fund in an amount ranging from 5% to 50% of the profits of, or distributions made by, the Fund, generally after the investors in such Fund receive distributions equal to their capital contributions and, if applicable, a preferred return thereon. C-III IM does not receive any portion of a Fund's carried interest (or promote).

With the exception of IF III (see above), C-III IM is responsible for its own operating expenses incurred in the performance of its obligations under each Investment Management Agreement. C-III IM is entitled to reimbursement by a Fund for operating expenses of such Fund paid by C-III IM.

Each Investment Advisory Agreement may be terminated by either C-III IM or the Fund (or its respective Affiliate) upon 30 days' prior written notice to the other party.

CDOS

As collateral manager for each Managed CDO, C-III IM is paid a collateral management fee pursuant to each CDO Management Agreement and Indenture equal to between 0.02% and 0.15% per annum of each CDO's principal collateral interests plus principal balance in the collection account (less defaulted obligations for each Managed CDO). C-III IM is responsible for all of its internal expenses incurred in the performance of its obligations under each CDO Management Agreement. C-III IM is entitled to reimbursement for certain costs and expenses incurred in the performance of its obligations, as provided in the applicable CDO Management Agreement. C-III IM generally may be removed as collateral manager, without payment of any penalty, for cause upon written notice as set forth in the applicable CDO Management Agreement (generally ten or 30 days). C-III IM generally has the right to resign as collateral manager upon written notice as set forth in the applicable CDO Management Agreement (generally 30 or 90 days).

As collateral administrator for each Static CDO, C-III IM is paid an amount equal to between 0.02% and 0.05% per annum of the principal balance of the collateral securities held by each Static CDO, payable in arrears. C-III IM generally may be removed as collateral administrator, without payment of any penalty, for cause upon 10 business days' prior written notice, as set forth in the applicable CDO Administration Agreement. C-III IM generally has the right to resign as collateral administrator only upon 90 days' prior written notice, as set forth in the applicable CDO Administration Agreement.

JERIT does not receive any fee for providing collateral administration services to JER 2005 CDO. JERIT is responsible for all expenses and costs it incurs in connection with its services



under the JER 2005 CDO Administration Agreement, except for certain expenses set forth therein. JERIT generally may be removed as collateral administrator, without payment of any penalty, for cause upon 10 days' prior written notice as set forth in the JER 2005 CDO Administration Agreement. JERIT has the right to resign as collateral administrator upon 90 days' prior written notice.

As collateral administrator for JER 2006 CDO, CRE CDO Manager is entitled to receive two fees payable on a monthly basis, each fee payable with different priorities as set forth in the indenture agreement: (i) 1/12 of 0.075% of the Monthly Asset Amount, which is the Collateral Principal Balance (each as defined in the JER 2006 CDO indenture); and (ii) 1/12 of 0.05% of the Monthly Asset Amount (as defined in the JER 2006 CDO indenture). CRE CDO Manager is not entitled to receive the subordinate collateral administration fee until certain over-collateralization coverage tests, among others, have been satisfied. CRE CDO Manager is responsible for all internal expenses and overhead incurred in the performance of its obligations under the JER 2006 CDO Administration Agreement. CRE CDO Manager is entitled to reimbursement for reasonable out-of-pocket costs and expenses incurred in the performance of its duties under the JER 2006 CDO Administration Agreement, subject to an overall expense cap set forth in the JER 2006 CDO indenture. CRE CDO Manager generally may be removed as collateral administrator, without payment of any penalty, for cause upon 10 days' prior written notice as set forth in the JER 2006 CDO Administration Agreement. CRE CDO Manager has the right to resign as collateral administrator upon 90 days' prior written notice.

JERIT

As external manager for JERIT, JERIT Manager is entitled to a base management fee monthly in arrears in an amount equal to 1/12 of the sum of (i) 2.0% of the first \$400 million of its equity, (ii) 1.5% of its equity in excess of \$400 million and up to \$800 million and (iii) 1.25% of its equity in excess of \$800 million. For purposes of calculating the base management fee, JERIT's equity equals the month-end value, computed in accordance with generally accepted accounting principles ("GAAP"), of its stockholders' equity, adjusted to exclude the effect of any unrealized gains, losses or other items that do not affect realized net income.

JERIT Manager is also reimbursed from JERIT for JERIT's pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of JERIT Manager and its affiliates required for JERIT's operations in the amount of \$225,000 per year multiplied by the sum of (i) one (1) plus (ii) the percentage increase in the Consumer Price Index ("CPI") for the applicable calendar year over the CPI for the calendar year 2011.

JERIT Manager may be removed as external manager of JERIT (i) without cause, upon 180 days' prior written notice after the second anniversary of the JERIT Management Agreement, upon payment of a termination fee and (ii) for cause, upon 60 days' prior written notice.

B. PAYMENT OF FEES

Each Fund (or its general partner, managing member or investment manager) and JERIT generally pay C-III its advisory fees as set forth in the applicable agreement described above. The trustee of each CDO pays C-III its advisory fees as set forth in the applicable agreement described above.

C. ADDITIONAL FEES AND EXPENSES

Other fees and expenses payable by a Fund generally include (i) the legal and other organizational expenses incurred in forming such Fund and related entities and obtaining commitments from such Fund's investors and (ii) the costs and expenses relating to such Fund's operations. A Fund may charge placement fees. Information regarding a Fund's fees and expenses, and other important information regarding an investment in such Fund, are set forth in the documents provided to such Fund's eligible prospective investors.

A Fund may retain affiliates of C-III IM to provide necessary services and transactions relating to a Fund's investments, including, without limitation, property management, leasing, sales brokerage, construction, development, financing, loan servicing (either primary or special), marketing or other services. To the extent C-III IM or any of its affiliates perform any services that are included in the operating expenses of a Fund, C-III IM or such affiliates may charge rates customarily charged for similar services by persons engaged in the same or substantially similar activities. The terms and conditions of any such services shall be at least as favorable to such Fund as the terms reasonably expected by C-III IM to be available in an arm's-length transaction with an independent third party, although such compensation will not actually be determined through arm's-length negotiation.

Other fees and expenses payable by a CDO generally include (i) fees and expenses of the advancing agent, trustee, paying agent, calculation agent, administrator and registrar, (ii) fees, expenses and amounts due or accrued and payable to the independent accountants, agents and counsel, (iii) taxes, registered office and governmental filing, registration and annual return fees and (iv) expenses of rating agencies. Information regarding a CDO's fees and expenses, and other important information regarding an investment in such CDO, are set forth in the offering and other documents provided to such CDO's eligible prospective investors.

D. REFUNDS FOR FEES CHARGED IN ADVANCE

Investors in a Fund agree to commit a certain amount of capital to such Fund before C-III IM provides any advisory services. Management fees assessed by a Fund are generally paid from these amounts and may be paid in advance. For a Fund for which management fees are paid in advance, the terms applicable to such Fund do not contemplate repayment of fees to the extent that C-III IM's advisory services terminate prior to the end of the relevant payment period. Accordingly, if a Client terminates C-III IM's services before they are provided for the applicable period, fees that have been paid in advance generally will not be pro-rated for such period and will not be returned to investors that paid those fees in advance.

E. SUPERVISED PERSONS

No Supervised Person (as defined in Item 11 below) of C-III accepts compensation for the sale of securities or other investment products, although Anubis Securities LLC ("**Anubis**"), an affiliate of C-III, serves as placement agent for the offering of limited partnership interests in RF II and may serve as placement agent for other Funds that may be organized in the future and may be paid compensation for the sale of interests in such Funds.

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

The general partner or managing member of each Fund is generally entitled to receive performance-based compensation, as set forth in such Fund's governing documents. Performance-based compensation is paid (generally in the form of a "promote" interest) in conformity with the Advisers Act.

JERIT Manager is entitled to receive quarterly incentive compensation from JERIT in an amount equal to the product of:

- (a) 25% of the dollar amount by which
 - (i) JERIT Funds from Operations (defined in the JERIT Management Agreement as net income (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of property and unrealized appreciation and/or depreciation, plus depreciation and amortization on real estate assets, after adjustments for unconsolidated partnerships and joint ventures) per share of common stock for such quarter (before calculation of the incentive fee but after taking into account the base management fee (as described above)), exceeds
 - (ii) an amount equal to (A) the weighted average prices per share of JERIT's common stock in all offerings by JERIT multiplied by (B) the greater of (1) 2.25% or (2) .875% plus one fourth of the 10-year U.S. treasury rate for such quarter, multiplied by
- (b) the weighted average number of shares of JERIT's common stock outstanding in such quarter.

Performance-based compensation arrangements may create an incentive for (i) C-III IM or JERIT Manager to recommend, or a Fund's general partner or managing member to approve, investments that may be riskier or more speculative than those that would be recommended or approved under a different fee arrangement and (ii) C-III to favor higher fee paying Client accounts over other accounts in the allocation of investment opportunities, either of which may create a conflict of interest for C-III and its affiliates. C-III and each Client's investment committee (to the extent applicable) consider such potential conflicts in recommending and approving such investment (see Item 13).

ITEM 7: TYPES OF CLIENTS

C-III provides investment advisory services to its Clients. If applicable, the minimum capital commitment for each investor in a Client is set forth in the Client's governing documents and other documents provided to eligible prospective investors. Interests in each Client are generally offered only to persons that are (i) "accredited investors," as defined in Regulation D under the Securities Act and (ii) either "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act and the rules thereunder. Such persons and/or entities include pension funds, high net worth individuals, insurance companies, investment banks, banks, trusts, endowments and other collective investment vehicles in which the foregoing invest.

An investor in a Client executes agreements with the applicable Client (either directly or by executing a subscription agreement for such Client) in connection with its investment. An investor generally is not permitted to withdraw or redeem from a Client prior to its dissolution.

C-III and/or a Fund's general partner or managing member (either on its own behalf and/or on behalf of such Fund), without any act, approval or vote of any other Fund investor, may from time to time enter into a letter agreement or other similar agreement (a "**Side Letter**") with one or more Fund investors that has the effect of establishing rights under, or altering or supplementing the terms of, a Fund's governing

documents. Any rights established, or any terms of such Fund governing document altered or supplemented, in a Side Letter with a Fund investor govern, notwithstanding any other provision of such Fund's governing documents. As a result of a Side Letter, certain Fund investors may receive additional benefits that other Fund investors will not receive. Neither C-III nor a Fund's general partner or managing member will be required to offer rights or terms to any Fund investor that are offered to any other Fund investor (unless provided for in a Side Letter with an investor).

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

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

A. METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

C-III provides investment advisory services with respect to equity and debt (including securitized debt) investments in commercial real estate assets, including multi-family, retail, office, hospitality and industrial/self-storage properties.

With respect to real estate equity investments, C-III reviews (i) the occupancy level and physical condition of the real estate asset, (ii) the state of the local economy in the area where the asset is located and (iii) capital expenditure requirements of the underlying asset and ability to make improvements, as well as other relevant information on a case-by-case basis. Key information includes lease terms, net effective rental rates, occupancy levels, comparable sales, appraisals, property inspections and other industry reports that are collected and analyzed regularly.

With respect to real estate debt investments, C-III maintains proprietary financial models used to evaluate prospective investments and monitor existing holdings. The maintenance of these models is based, in part, on the ongoing surveillance and collection of credit performance statistics and updated collateral information from various affiliate and third-party sources including issuers, broker-dealers, rating agencies, governmental agencies and data vendors. In addition, C-III's proprietary database of information, including financial performance, sponsorship, leasing status, tenancy, supply/demand dynamics and physical condition of the real estate assets underlying the commercial mortgage backed securities ("CMBS"), commercial real estate collateralized debt obligations ("CRE-CDOs") or loans in which a Client may invest. C-III will also generally conduct an in-depth, asset-level evaluation of each opportunity using proprietary quantitative and qualitative analyses that will assist in evaluating target investments

For all investments, C-III utilizes its proprietary database and subscriptions to various third-party data sources containing real estate-related information, consultations with real estate investors, operators, experts and other professionals, supported by experts and professionals in related fields, and information provided employees in C-III's affiliated real estate services companies.

B. MATERIAL RISKS

An investment in a Client is speculative and involves a high degree of risk.

Below is a summary of certain risks associated with an investment in a Client. Investors should refer to the risk factors in each Client's offering memorandum, governing documents or other documents provided to eligible prospective investors for a more complete description of the risks associated with an investment in such Client. The risks described below and in each Client's offering memorandum, governing documents or other documents provided to eligible prospective investors could adversely affect a Client's business, the value of a Client's investments and the



return to a Client and an investor in such Client. No guarantee or representation is made that a Client or an investor in such Client will achieve its or their investment objectives, goals or targeted returns, or that an investor in such Client will receive a return of its capital. There is no certainty of return with respect to any such investment and a prospective investor should be able to withstand a total loss of its investment. The following discussion does not purport to be an exhaustive explanation of all of the risks and significant considerations involved, and each prospective investor should consult with its own advisors.

NATURE OF INVESTMENTS

An investment in a Client generally requires a long-term commitment with no certainty of return.

A Client may make investments in real estate and real estate related assets (including CMBS and CRE-CDOs) that are experiencing or are expected to experience severe financial difficulties that may never be overcome. Although an investment by a Client may generate some current income, the return of capital and the realization of gains, if any, from such investment generally will occur (i) in the case of a real estate debt investment, when the borrower repays the related loan (at maturity or sooner), (ii) in the case of a CMBS or CRE-CDO investment, when the borrowers repay the loans (at maturity or sooner) underlying the CMBS trust or CRE-CDO issuer or the Client sells the CMBS or CRE-CDO investment, or (iii) in the case of a real estate equity investment, when the Client sells the investment. Although an investment may be sold or the related loan repaid at any time, it is not generally expected that this will occur for a substantial length of time, and in many cases several years, after the investment is acquired. Therefore, there may be little or no near-term cash flow available to the investors in a Client. Because a Client may only make a limited number of investments and because many of the investments may involve a high degree of risk, poor performance by a few Client investments could severely affect the total returns to investors in such Client. Generally, a Client's investments will be selected and funded after an offering is completed, and prospective investors will not have the opportunity to analyze a Client's portfolio of investments before investing in such Client.

REAL ESTATE INVESTMENTS

General

The performance of a Client's real estate and real estate-related investments will be significantly affected by fluctuations in the value of the underlying properties (including properties collateralizing the loans held by a Client and the properties collateralizing the loans underlying a Client's investments in CMBS and CRE-CDOs) and the cash flows generated by those properties. If the underlying properties do not generate revenues sufficient to meet operating expenses, a Client's cash flow and ability to make distributions to its investors will be adversely affected. The factors affecting the cash flows generated by the underlying properties (including properties collateralizing the loans held by a Client and the properties collateralizing the loans underlying a Client's investments in CMBS and CRE-CDOs) and the values of those properties include:

- national and local economic conditions;
- changes in supply of, and demand for, competing properties in an area (including the consequences of overbuilding);
- changes in real property tax rates;



- changes in interest rates and the availability of mortgage funds (including changes that may render the sale or refinancing of properties difficult or impracticable);
- financial resources of tenants;
- changes in building, environmental and other laws or government regulations; and/or
- quality of management and maintenance of the properties.

Declines in Real Estate Values

Risks associated with investing in real estate and real estate-related investments are likely to be more severe during periods of economic slowdown or recession, especially if such periods are accompanied by declining real estate values. Further, declining real estate values significantly increase the likelihood of losses on real estate and real estate-related investments acquired by a Client in the event of default, as the value of the underlying real estate and the value of the loans collateralized by such real estate may be insufficient to pay amounts owed in respect of such investments and result in a loss to a Client. Low recovery on real estate or real estate-related investments might result in a loss on the investment. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect the income received by a Client from its real estate and real estate-related investments, which would reduce the amount it has available for distribution. Furthermore, the underlying properties may be suffering varying degrees of financial distress or may be located in economically distressed areas.

In the case of real estate debt investments (including investments in CMBS and CRE-CDOs), adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. In addition, loans may become non-performing for a wide variety of reasons and may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, replacement “take-out” financing will not be available, which could ultimately impact the value of the related investments.

Ownership of Properties

A Client that owns a real estate asset, or becomes the owner of a real estate asset as a result of the resolution of a defaulted debt investment, is responsible for the operation of such real estate investment.

Type and Use of Properties; Alternative Use of Properties

Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties often are operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel’s operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements.

Furthermore, a commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if a borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.

Uninsured Losses

A Client that owns real estate equity investments intends to maintain comprehensive insurance on each such investment, and a Client that owns real estate debt investments intends to require the underlying borrowers to acquire and maintain comprehensive insurance on each of the properties underlying such debt investments, including general liability, fire, extended coverage and rental loss insurance, with reputable carriers and with policy specifications and insured limits which the Client believes are adequate and appropriate under the circumstances, given relative risk of loss, the cost of such coverage and industry practice. A Client that owns CMBS and/or CRE-CDO investments will not likely have any input on the level of insurance on the real property underlying the loans that collateralize such investments. If a Client, or any of the applicable borrowers, fails to adequately insure any of the applicable properties and an uninsured loss occurs, the consequences may be adverse for such Client.

Uninsured losses, whether because the owner of the property fails to maintain insurance adequate and appropriate under the circumstances or because certain types of losses of a catastrophic nature (including, without limitation, wars, natural disasters, terrorist attacks and other similar events) are uninsurable or insurable only on commercially unrealistic terms, may create a risk of loss to a Client. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance for a property. As a result, some or all of a Client's investments in real property, or properties that collateralize a Client's debt investments, may not be insured against terrorism. Even if insurance is in place and an insured loss is paid, inflation, changes in building codes and ordinances, environmental considerations and other factors may make it infeasible to use the insurance proceeds to repair or replace a property if it is damaged or destroyed. Should an uninsured loss or a loss in excess of insured limits occur with respect to a Client's real estate investments (or the collateral underlying a Client's investment), such Client could lose the value of its investment, as well as the anticipated future revenue from such investment and, in the case of debt which is recourse to a Client, such Client would remain obligated for any mortgage debt or other financial obligations related to such investment. It is also possible that the lack of available insurance coverage for such risks in the future may adversely affect the ability to obtain conventional financing for commercial properties, which in turn may adversely affect the liquidation proceeds that may be realized following a default on any commercial loan. Any such loss could adversely affect the financial condition, results of operations and cash flow of a Client.

Environmental Risks

The value of a Client's investments could be impaired if the properties (or the properties securing the loans underlying the investments) sustain losses related to environmental claims. A Client could face meaningful risk of loss from lawsuits related to environmental claims based on

environmental problems associated with real estate investments or the properties underlying an investment. A Client may be liable pursuant to environmental claims under various federal, state and local laws, ordinances and regulations, as well as common law principles (collectively, “**Environmental Laws**”) for the costs of removal or remediation of certain hazardous or toxic substances on or in a property, and subject such Client to claims or liability for the costs of removal or remediation of hazardous substances that are released at, in, on, under or from the property. The cost of any required remediation and the owner’s liability therefore as to any property generally are not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. In addition to claims for cleanup costs, the presence of hazardous substances on, or the release of hazardous substances from, a property or a facility and persons who arranged for off-site disposal activities could result in a claim by a private party for personal injury or property damage or could result in a claim from a governmental agency for other damages. Liability under such Environmental Laws can be imposed on the owner or the operator of real property or a facility without regard to fault or even knowledge of the release of hazardous substances and other regulated materials on, at, in, under or from the property or facility. Any environmental studies that may be conducted with respect to properties before a Client makes the investment cannot guarantee that the Client will be aware of all contamination at those properties and the subsequent costs of removal, management or remediation, either because such conditions were latent or because of changes in laws and regulations. The presence of hazardous substances in amounts requiring response action or the failure to undertake necessary remediation may adversely affect the Client’s ability to use or sell real estate or borrow money using such real estate as collateral, which could have an adverse effect on the Client’s return from such investment. Moreover, any such losses sustained at the property level could impair the ability of borrowers to repay the loans (including loans that collateralize CMBS and CRE-CDO investments), which in turn could have an adverse impact on the value of the investments and the Client.

Leasing Delays and Tenant Bankruptcies

A Client’s receipt of income may depend upon the cash flows it derives from lease payments under leases and the cash flows received by the borrower under a debt instrument held by such Client from lease payments under leases. Therefore, the performance of a Client’s investments will depend upon the ability of the owner of the property to lease and re-lease space within the applicable properties and on the various tenants’ payment of rent and performance of other obligations under leases, such as maintenance of properties, payment of taxes, utilities and other charges and maintenance of insurance. The owner of a property will have no control over the actions of any of its tenants and, at any time, any of its tenants may delay lease commencement or renewal, fail to make lease payments when due or declare bankruptcy. Any leasing delays, tenant failures to make lease payments when due or tenant bankruptcies could result in the termination of the tenant’s lease and, particularly in the case of a large tenant, material losses to a Client, and could harm the Client’s ability to make distributions to its investors or otherwise operate its business.

If a tenant is unable to comply with the terms of its lease, the owner of the property may be forced to modify lease terms in ways that are unfavorable to it. Alternatively, the failure of a tenant to perform under a lease or to extend a lease upon expiration of its term could require the owner of the property to declare a default, repossess the property, find a suitable replacement tenant, operate the property or sell the property. There is no assurance that the owner of the property will be able to lease the property on substantially equivalent or better terms than the prior lease, or at all, successfully reposition the property for other uses, successfully operate the property or sell the property on terms that are favorable to such owner.



Significant Tenant Ceasing to Operate at a Retail Property

A significant tenant ceasing to do business at a retail property could result in realized losses with respect to an investment. The loss of a significant tenant may be the result of the tenant's voluntary decision not to renew a lease or to terminate it in accordance with its terms, the bankruptcy or insolvency of the tenant, the tenant's general cessation of business activities or other reasons (including co-tenancy provisions permitting a tenant to terminate a lease prior to its term). There is no guarantee that any tenant will continue to occupy space in the related retail property. Additionally, the bankruptcy of, or financial difficulties affecting, a major tenant may adversely affect a borrower's ability to make its mortgage loan payments.

Some component of the total rent paid by retail tenants may be tied to a percentage of gross sales. As a result, the correlation between the success of a given tenant's business and property value is more direct for retail properties than other types of commercial properties. Significant tenants or anchor tenants at a retail property play an important part in generating customer traffic and making a retail property a desirable location for other tenants at that property. A retail "anchor tenant" is typically understood to be a tenant that is larger in size and is important in attracting customers to a retail property, whether or not it is located on the mortgaged property.

Some tenants at retail properties may be entitled to terminate their leases or pay reduced rent if sales are below certain target levels, or if an anchor tenant or one or more major tenants cease operations at that property or fail to open. If anchor stores in a mortgaged property were to close, the borrower may be unable to replace those anchor tenants in a timely manner on similar terms, and customer traffic may be reduced, possibly affecting sales at the remaining retail tenants. While an anchor tenant that ceases to do business at a particular location may continue to pay rent, the absence of that tenant in the retail center may adversely impact other tenants and the ability of the borrower to continue paying debt service. The lack of replacement anchors and a reduction in rental income from remaining tenants may adversely affect the borrower's ability to pay current debt service or successfully refinance the mortgage loan at maturity. These risks with respect to an anchored retail property may be increased when the property is a single tenant property. In addition, certain retail anchor tenants may own their building and improvements, while the borrower owns only the underlying land. In those cases, the collateral securing the mortgage loan will include only the land and the rights of the borrower as landlord with respect to the anchor lease.

Competition from Alternative Retail Distribution Channels

Retail properties face competition from sources outside their local real estate market. Catalog retailers, home shopping networks, the Internet, telemarketing and outlet centers all compete with more traditional retail properties for consumer dollars. These alternative retail outlets are often characterized by lower operating costs. Continued growth of these alternative retail outlets could adversely affect the rents collectible at retail properties and result in realized losses on such investments. In addition, retail property owners may elect to undertake the expense of expanding or upgrading their facilities in connection with tenant turnover or in order to enhance competitive advantage (and thus decrease their available cash flow).

Investments in Net Lease Properties May Generate Losses

A Client may make investments in net leased real estate assets. The value of such investments and the income from such investments in net lease properties will depend upon the ability of the applicable tenant to meet its obligations to maintain the property under the terms of the net lease.

If a tenant fails or becomes unable to so maintain a property, the Client will be subject to all risks associated with owning real estate. In addition, under many net leases the owner of the property retains certain obligations with respect to the property, including among other things, the responsibility for maintenance and repair of the property, to provide adequate parking, maintenance of common areas and compliance with other affirmative covenants in the lease. If the owner of the property were to fail to meet these obligations, the applicable tenant could abate rent or terminate the applicable lease, which may result in a loss of a Client's capital invested in, and anticipated profits from, the property. In addition, the owner of the property may find it difficult to lease property to new tenants that may have been suited to the particular needs of a former tenant.

Acquisition, Development and Redevelopment Activities

A Client may acquire, develop and redevelop real estate properties on a select basis. C-III does not anticipate that a Client will undertake new development as a strategic matter, although a Client may continue and complete the existing development of acquired properties and redevelop or enhance other properties. There can be no assurance that a Client will undertake to acquire, develop or redevelop any particular site or that it will be able to complete such acquisition, development or redevelopment if it is undertaken. Risks associated with a Client's acquisition, development and redevelopment activities include the following:

- acquisition, redevelopment and development opportunities explored by a Client may be abandoned and, as a result, such Client may fail to recover expenses already incurred in connection with exploring such opportunities;
- acquisition, development and redevelopment costs for a property, including, without limitation, materials, labor or other expenses, may exceed original estimates, possibly making the property uneconomical;
- zoning, land-use, building, occupancy and other required governmental permits and authorizations may be difficult or impossible to obtain, leading to delays in and/or abandonment of all or a portion of the acquisition, development or redevelopment of a property;
- construction and lease-up may not be completed on schedule, resulting in increased debt service and development or redevelopment costs;
- leasing costs and tenant improvement costs may exceed expectations and, therefore, adversely affect the operating performance of a property; and
- construction and permanent financing may not be available on favorable terms.

The occurrence of any of the events described above could result in meaningful unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could adversely affect a Client's ability to achieve its projected yields on investments under development or redevelopment and, in turn, could reduce potential distributions to investors. Properties under development or properties acquired for development may distribute little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.



In addition, the failure to obtain necessary debt and equity financing on favorable terms could have a material adverse effect on a Client's ability to acquire, develop and redevelop real estate. Moreover, in the event that the cost of debt or equity financing for new acquisitions, development and redevelopment increases, the increased cost of such financing may result in a lower margin of profit on a Client's real estate investments than initially contemplated. If market conditions deteriorate, the financial condition of a Client may be materially adversely affected.

Costs of Compliance with ADA and Similar Laws

Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. Although a Client that acquires a real estate investment intends to comply with the requirements of the ADA, such Client may incur additional costs of complying with the ADA at the time of acquisition and from time to time in the future to stay in compliance with any changes in the ADA. A number of additional federal, state and local laws exist that also may require modifications to such real estate investments, or restrict certain further renovations thereof, with respect to access thereto by disabled persons. Additional legislation may impose further burdens or restrictions on owners with respect to access by disabled persons. The ultimate amount of the cost of compliance with the ADA or such other legislation is not currently ascertainable and, while such other costs are not expected to have a material effect on a Client, such costs could be meaningful.

DISTRESSED ASSETS

A Client may make meaningful investments in non-performing, underperforming or other troubled debt and equity real estate and real estate-related investments (including currently performing assets that may become non-performing or distressed in the future). These investments may have legal and financial risks and may be experiencing or may be expected to experience severe financial difficulties that may never be overcome and there can be no assurance that a Client's return and/or cash multiple of invested capital objectives will be realized or that there will be any return of capital to the Client or its investors.

REAL ESTATE DEBT INVESTMENTS

A Client may acquire sub-performing or non-performing debt interests and may acquire performing interests that become sub-performing or non-performing in the future. Some of these investments may be made with a goal of "loan-to-own." Investment in real estate debt generally carries with it many, if not most of, the risks associated with direct real estate investment. The collateral for debt investments may be mismanaged or otherwise decline in value. There exists the risk that re-financing will not be available for assets serving as collateral for debt acquired by a Client. The owner of the property may delegate the responsibility for the management and operation to a third party and therefore such investments may be adversely affected. Further, investments operating under the close supervision of a mortgage lender are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of the Client's original investment therein.

A Client's investments may include interests in commercial mortgage loans. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than residential mortgage loan mortgage loans on owner-occupied single-family residences. The ability of a borrower to repay a loan secured by commercial property primarily depends upon the successful operation and the operating income of that

property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, control operating expenses and comply with applicable zoning and other laws), rather than depending upon the existence of independent income or assets of the borrower. If the net operating income of the property deteriorates, the borrower's ability to repay the loan may be impaired. Net operating income of a commercial property can be affected by, among other things: tenant mix; success of tenant businesses; property management decisions; property location and condition; competition from comparable types of properties; changes in laws that increase operating expenses or limit rents that may be charged; any need to address environmental contamination at the property or the occurrence of any uninsured casualty at the property; changes in national, regional or local economic conditions and/or specific industry segments; declines in regional or local real estate values; declines in regional or local 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; and acts of God, terrorist attacks, social unrest and civil disturbances. Most commercial mortgage loans provide recourse only to the mortgaged property, and not against the borrower's other assets or personal guarantees, other than customary non-recourse carve-outs.

There is a significant risk that a Client may experience losses on its debt investments because of a default by the applicable borrowers. The factors that may result in borrower defaults and losses on a Client's investments include (i) adverse changes in economic and real estate market conditions generally and in the sectors and geographic locations applicable to the specific investment or underlying assets, (ii) the terms and structure of the mortgage loan and (iii) any specific limits on legal and financial recourse upon a default under the terms of the mortgage loan.

Most residential mortgage loan loans are fully self-amortizing (meaning that the periodic payments made by the borrower are sufficient over the life of the mortgage to pay all principal as well as interest). By contrast, most commercial mortgage loans do not fully amortize, so that at the maturity of the loan the borrower must repay a substantial principal balance. This loan feature frequently requires the borrower either to sell the property or to refinance the remaining principal balance at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans, or CMBS backed by one or a pool of commercial mortgage loans, bear the risk that the borrower will be unable to sell, refinance or otherwise generate the funds required to repay the mortgage loan at maturity, thereby increasing the ultimate likelihood of a default on the borrower's obligation. Such a default may be more likely if the value of the encumbered real estate has declined in value or if market interest rates have significantly increased. A default on one or multiple loans could trigger losses on a Client's investments.

In the event of any default under a mortgage loan held directly by a Client, such Client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on the Client's cash flow from operations and limit amounts available for distribution to its investors. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to that borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process that could have a substantial negative effect on a Client's anticipated return on the foreclosed mortgage loan.

As part of its investment program, a Client may invest in fixed-rate and floating-rate loans. Floating rate loan investments would expose a Client to the risk of lower cash flow in the event that interest rates decrease from the date of investment. Fixed rate debt investments would expose a Client to the risk of value deterioration in the event of interest rate increases. A Client's debt investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by the Client earlier than expected, resulting in a lower return to the Client than projected. If market interest rates decline, it is likely that borrowers will seek to repay their loans prior to stated maturity in order to refinance at lower rates. If that happens, then, except as protected by any yield maintenance provisions, a Client will lose the benefit of the above-market interest rate payments it otherwise would receive on the repaid loans. In addition, certain of the mortgage loans in which a Client may invest may be structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time.

Moreover, in certain situations, because C-III (on behalf of a Client) may, in the exercise of remedies or rights under loan documents, obtain contractual rights to participate in or to influence the management of a borrower's property, the likelihood is increased that a borrower may claim that C-III or such Client interfered with the borrower's business, acted in bad faith in exercising its management rights or otherwise acted in a manner giving rise to a claim for lender liability. The exercise of rights or remedies may not be led or controlled by C-III, but may be led or controlled by a holder of a different debt position who may have interests that are in conflict with the interests of the Client. As a lender, a Client may also be subject to penalties for violations of state usury limitations; such penalties may be triggered by contracting for, charging or receiving usurious interest.

In the event of default and the exhaustion of any equity support, reserve fund or letter of credit support, a Client might not be able to recover all of its investment in the debt obligation acquired. A Client's investment in commercial real estate loans may involve workout negotiations, restructuring and/or the possibility of foreclosure. Even if a restructuring were successfully accomplished, there exists the risk of a substantial reduction in the interest rate and a substantial write-down of the principal of such loans. It is possible that C-III may find it necessary or desirable to foreclose on collateral securing one or more real estate loans acquired by a Client.

SUBORDINATE DEBT

Certain debt instruments in which a Client may invest may be subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and/or subject such Client to a "first loss" subordinate holder position. The ability of a Client to exercise its remedies upon a default, or to take action in anticipation of a default to protect the value of its investment, is likely to be substantially less than that of senior creditors. For example, under the terms of a typical subordination agreement, senior creditors are able to block the acceleration of the junior debt or the exercise by junior debt holders of other rights they may have as creditors. Accordingly, in the case of actual or pending defaults by the obligor on its investments, a Client may not be able to take the steps necessary to protect its interest in a timely manner or at all.

Debt securities and investments of the type in which a Client may invest are also subject to other risks arising out of the laws governing creditors' rights, including (i) the possible invalidation of an investment transaction (e.g., a mortgage lien or a payment made to a creditor) as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) the possible assertion of so-called "lender liability" claims by borrowers or their owners and (iii) environmental liabilities that may arise with respect to the collateral securing the loans. In many cases, C-III's management of a Client's

investments and its remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of the senior lenders and contractual inter-creditor provisions. Accordingly, there can be no assurance that a Client's rate of return objectives will be realized.

PARTICIPATION INTERESTS

A Client's debt investments may be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, control and management risks, liquidity risk as well as the normal or typical risks of being a lender. Participations in commercial real estate loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a borrower; however, participation interests in a commercial real estate loan typically result in a contractual relationship only with the holder of the related whole loan, not with the borrower. With respect to a Client's investments structured as participation interests, the Client generally would have no right either to enforce compliance by the borrower with the terms of the underlying loan or to set-off obligations that the Client may otherwise owe to the borrower and may only be able to enforce its rights through the holder of the related whole loan. Furthermore, the Client may not directly benefit from the collateral supporting the loan in which it holds the participation. As a result, the Client would assume the credit risk of both the borrower and the institution selling the participation. Investments in participation interests in commercial real estate loans raise many of the same risks as direct investments in commercial real estate loans and also carry risks of illiquidity and lack of control. It is likely that there will not be an active secondary market for participation rights of the kind that a Client might acquire.

B-NOTES

A Client may invest in B-Notes, which are loans or participations therein that rank junior in priority to more senior debt secured by the same commercial real property or interests in the same commercial property. Inter-creditor, subordination and participation agreements generally provide that after the occurrence and during the continuation of certain events of default under the applicable loan documents, B-Notes are not entitled to receive any payments of interest or principal unless and until the senior debt has been paid in full. In addition, any losses and expenses, including losses of principal or interest, non-recoverable advances, interest on advances and special servicing compensation may be borne first by the B-Note and then by the related senior debt.

Further, B-Notes typically are secured by a single property, and so reflect the increased risks associated with a single property compared to a pool of properties. B-Notes also are less liquid than CMBS, and thus a Client may be unable to dispose of underperforming or non-performing investments. The higher risks associated with a subordinate position in a B-Note investment could subject a Client to an increased risk of loss.

Servicing of B-Notes is typically performed by a servicer or special servicer appointed pursuant to the documents governing the servicing of the related senior debt, subject to the provisions of the related inter-creditor, subordination or participation agreement. Although a Client may have the right to appoint the special servicer for the related whole loan and may have limited rights to consult with, and direct or approve certain servicing actions of, the servicer or special servicer appointed pursuant to the related senior debt, such rights will terminate if the principal balance of such B-Note is reduced below a specified percentage of its initial principal balance, as the result



of principal write-downs or appraisal reductions. The shifting of such rights to a more senior debt holder would likely result in an adverse effect on a Client's investments.

A Client will not have the right to directly enforce compliance by the borrower under a B-Note or mezzanine loan with the terms of the loan documents or to waive enforcement thereof, and the right to vote all claims in any bankruptcy of the borrower have been assigned to the holder of the related senior debt.

COMMERCIAL MORTGAGE BACKED SECURITIES ("CMBS")

A Client may invest in CMBS, which are securities secured by a single commercial mortgage loan or a pool of commercial mortgage loans (including certificates of participation in such loans obligations). Investing in CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations, including the risk of principal prepayment, the risk of investing in real estate, lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. The exercise of remedies and successful realization of liquidation proceeds relating to CMBS may be highly dependent on the performance of the special servicer.

Some investments in CMBS may be subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and/or subject to a "first loss" subordinate holder position. Investments in subordinate securities, such as CMBS, have a higher risk of such loss than investments in more senior securities. In the event that C-III underestimates the pool losses relative to the price the Client pays for a particular CMBS investment, the Client may experience losses with respect to such investment. With respect to CMBS, overall control over the special servicing of the related underlying mortgage loans may be held by a directing certificate holder or a controlling class certificate, which is appointed by the holders of the most subordinate class of CMBS in such series. Furthermore, if the Client does not have the right to appoint the directing certificate holder or controlling class representative, the related special servicer, at the direction of the directing certificate holder, may take actions with respect to specially serviced mortgage loans that could adversely affect the investments.

COMMERCIAL REAL ESTATE COLLATERALIZED DEBT OBLIGATIONS ("CRE-CDOs")

A Client may invest in CRE-CDOs, which are, generally, limited recourse obligations of the issuer thereof payable solely from the collateral owned by such issuer or the proceeds thereof. CRE-CDOs are subject to similar risks and provisions as commercial mortgage loans, B-Notes and CMBS, including:

- limited liquidity and secondary market availability;
- the possibility that income of a related borrower may be insufficient to meet its debt service;
- declining creditworthiness and potential for insolvency of the borrower during periods of economic downturn;
- spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received; and

- subordination to the prior claims of other senior lenders and creditors in the event that CRE-CDOs include loans with terms that, upon certain conditions, allow the spread subordinated.

The holder of an interest in a CRE-CDO must rely solely on distributions on the underlying collateral or proceeds thereof for payments in respect thereof. If distributions on the underlying collateral are insufficient to make payments on the CRE-CDO, no other assets will be available for the payment of such deficiency and following realization of the underlying collateral, the obligation of such issuer to pay such deficiency shall be extinguished.

Many subordinate classes of CRE-CDOs provide that a deferral of interest thereon does not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of non-payment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such CRE-CDO.

The underlying collateral of a CRE-CDO is subject to credit, liquidity and interest rate risks. Such assets may consist of commercial mortgage loans, structured finance securities and other real estate related debt instruments, which may be rated either as investment grade or below investment grade (or of equivalent credit quality). The lower rating of below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer, general economic conditions or both may impair the ability of the issuer to make payments of principal or interest.

Many CRE-CDOs are actively managed securitization vehicles, and the manager's performance is vital to the performance of a CRE-CDO, particularly the most subordinate tranches. Accordingly, CRE-CDOs are subject to investment manager risk, characterized as the potential failure on the manager's part in some measure to select quality investments, effectively anticipate and act on market movements, manage conflicts and/or otherwise execute an investment strategy consistent with the interests of the investors.

MEZZANINE LOANS

A Client may invest in so-called "mezzanine loans," which are typically structured as a loan to a parent entity of the commercial mortgage borrower (with the parent mezzanine borrower typically contributing the loan proceeds to the subsidiary mortgage borrower) where the mezzanine borrower's repayment obligation is secured primarily by a pledge of its direct or indirect ownership interests in the mortgage borrower. If a Client makes an investment in a mezzanine loan, its ability to foreclose on the pledged ownership interests in the mortgage borrower will usually be constrained by inter-creditor arrangements with the mortgage lender that, for example, may require the Client to cure material defaults under the mortgage loan (and such curative action may be required) before being entitled to foreclose on its collateral. Foreclosure will also be limited by the rights of the mezzanine borrower under applicable law. Even if a Client is able to foreclose on its collateral, as the new direct or indirect owner of the mortgage borrower, the Client will become the borrower, in effect, with respect to the underlying commercial mortgage loan and the owner (subject to the mortgage and any other senior mezzanine indebtedness) of the underlying property.

Moreover, a mezzanine loan may become unsecured as a result of a foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, a Client may not have full recourse to the assets of the property owning entity, or the



assets of the entity may not be sufficient to satisfy such Client's mezzanine loan. If a borrower defaults on a Client's mezzanine loan or debt senior to the Client's mezzanine loan, or in the event of a borrower bankruptcy, such Client's mezzanine loan will be satisfied only after the senior debt is paid in full. As a result, a Client may not recover some or all of its investment, which could result in losses.

Investments in mezzanine loans therefore involve not only the risks associated with subordination to the rights of senior mortgage lenders, but also the risks associated with ownership and management of the underlying property and the risks of being the borrower, in effect, with respect to a commercial mortgage loan that may be in default.

In addition, a mezzanine loan may have a higher loan to value ratio than a conventional mortgage loan, resulting in less equity in the property and increasing the risk of loss of principal.

UNRATED INVESTMENTS

A Client may invest in debt instruments that are not rated by any recognized rating agency. The value of unrated debt obligations tends to be subject to more fluctuation as a result of economic conditions than rated debt obligations. Overall credit quality may move up or down frequently within this category. A Client's acquisition of credit support classes of securitizations (which may be "first loss" classes) that are unrated at the time of acquisition and that have lower ratings incrementally increase the risk of nonpayment or of a significant delay in payments on these classes. The downgrading of an asset may adversely affect the value of the asset and, ultimately, adversely affect the value of a Client's investment. Except as provided in a Client's governing documents, there are no limits on the percentage of unrated or noninvestment grade assets that a Client may hold in its portfolio.

ENFORCEMENT OF RIGHTS AGAINST BORROWERS FOLLOWING DEFAULTS

If a borrower under the debt instrument comprising a Client's investment defaults in its obligations, such Client (or the special servicer of a CMBS trust or the collateral manager of a CRE-CDO) may seek to pursue the foreclosure and other remedies, if any, available under the terms of the related loan. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses, which could adversely affect the value of the collateral and thus the Client's investment. The foreclosure process varies from jurisdiction to jurisdiction and can be lengthy and expensive. Applicable laws in certain jurisdictions may provide borrowers with an array of rights to resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including, without limitation, lender liability claims and defenses. In some jurisdictions, foreclosure actions can take several years or more to litigate. Foreclosure litigation can create a negative public image of the applicable property and may result in disruption of the ongoing leasing and management of the property. In certain circumstances, foreclosing mortgage creditors may also become liable, upon taking title to collateral, for environmental or structural damage at the property site. Because of the potential difficulties presented by the foreclosure process, in some cases instead of pursuing foreclosure or other remedies, a Client or senior lender may seek to negotiate with the borrower to restructure the debt. Although a restructuring may avoid the delay and expense of foreclosure, it is likely to have other adverse consequences for a Client. Any restructuring may involve a substantial reduction in the interest rate and/or a substantial write-down of the principal of the restructured loan, which will reduce the value of a Client's investment and may result in a loss on the investment. A restructuring could also delay the realization of a Client's investment.



BANKRUPTCY CONSIDERATIONS

Claims on real estate assets operating in workout modes or under applicable bankruptcy laws could, if a Client inappropriately exercises control over the management and policies of the debtor, be subordinated or disallowed, and may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of the Client's original investment, including equitable subordination and/or disallowance of claims or lender liability. Furthermore, payments made to a Client in respect of such claims, and distributions by such Client, could be recovered if such payments or distributions are found to have been fraudulent conveyances or preferential payments or the equivalent under the laws of certain jurisdictions. Bankruptcy laws may delay the ability of a Client to realize on collateral for claims held by it or may adversely affect the priority of such claims through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the "cramdown" provisions of the bankruptcy laws. In addition, there are other risks and uncertainties related to litigation, bankruptcy and other laws and regulations affecting the rights and remedies of a Client with respect to these assets that can create additional financial risks to such Client.

OTHER RISKS RELATING TO REAL ESTATE RELATED INVESTMENTS

Limited Liquidity of Real Estate Investments

There will likely be only a limited liquid market for a Client's investments, and certain types of investments (B-Notes, mezzanine loans and preferred equity and, to a certain extent, certain classes of CMBS and CRE-CDOs) will generally be illiquid because there is no organized trading market and the sales that do occur tend to be sporadic. Dispositions of a Client's investments also may be subject to contractually imposed limitations on transfer or other restrictions that could interfere with the sale of such Client's investments or adversely affect the terms that could be obtained upon any sale. This limited liquidity may limit the ability of a Client to change the composition of its portfolio promptly in response to changes in economic or other conditions and limit near-term cash flow available for distribution to its investors. The limited liquid market for such investments also means that, if a Client for any reason sells an investment, the Client may receive a low price and, as a result, may realize a loss on that investment.

Certain of the debt instruments acquired by a Client may have terms (including grace periods and extension rights) longer than the term of such Client. Thus, a Client may acquire investments that cannot be readily sold prior to the date that such Client will be dissolved, either by expiration of the Client's term or otherwise. Although C-III expects that Client investments will be repaid or disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, C-III has only a limited ability to extend the term of a Client, and the Client may have to sell, distribute or otherwise dispose of its investments at a disadvantageous time as a result of the pending expiration of the Client's term and subsequent dissolution.

Because C-III does not expect there to be any liquid market, or only a limited liquid market, for a Client's investments, the fair value of such investments may not be readily determinable. C-III will value a Client's investments as set forth in such Client's governing documents, which may include fair value. The valuations used by C-III for a substantial portion of a Client's investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair value pricing of a Client's investments include discounted cash flows, prevailing market conditions with respect to the location of a property investment, similar property sales, and other relevant factors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, C-III's determination of fair



value may differ materially from the actual results obtainable in arm's-length sales of investments to third parties.

Diversification Risk

There is no assurance as to the degree of diversification that will actually be achieved in a Client's portfolio of investments. A Client's governing document may not impose any specific requirements as to diversification of such Client's investments. A Client may make only a limited number of investments and, as a consequence, the aggregate return of a Client may be substantially adversely affected by the unfavorable performance of even a single investment. If the commercial real estate market experiences any negative trends, the value of the Client's investments may be adversely affected.

If a Client makes an investment in multiple related assets in a single transaction with the intent of selling a portion of the investment, there is a risk that such Client will be unable to successfully complete such a sale. This concentration could lead to increased risk as a result of a Client having an unintended long-term investment and reduced diversification.

Prepayment Risk

Certain commercial real estate loans (including loans underlying and collateralizing CMBS and CRE-CDO investments) may be subject to prepayment. Prepayments on commercial mortgage loans comprising or underlying investments may be affected by a number of factors. If prevailing interest rates for similar mortgage loans fall below the interest rates on such mortgage loans, prepayment rates would generally be expected to increase. Conversely, if prevailing interest rates for similar mortgage loans (or interests therein) rise above the interest rates on such mortgage loans, prepayment rates would generally be expected to decrease. Certain commercial mortgage loans may have lockout periods and/or defeasance periods during which prepayment is prohibited or require prepayment penalties or premiums or defeasance features to be paid upon a prepayment. However, certain of such loans may permit prepayment after such lockout periods or the periods for such prepayment penalties or premiums have expired. Prepayments are also affected by the value of the related mortgaged property, the borrower's equity in the mortgaged property, the financial circumstances of the borrower, fluctuations in the business operated by the borrower on the mortgaged property, competition, general economic conditions and other factors. There can be no assurance that such mortgage loans will repay at any particular rate. If the loans underlying the investments prepay at rates that are below the projected rates, the value of the investments may be impaired.

LIBOR or the Rates Underlying LIBOR May Not Be Reported Accurately

Recently, several U.S. and U.K. regulators and governmental authorities commenced investigations into the veracity of the rates submitted by banks to the British Bankers Association ("BBA") for the purpose of calculating LIBOR and to other rate-setting bodies for the purpose of calculating other interbank offered rates similar to LIBOR. Several banks have announced settlements with the U.S. Commodity Futures Trading Commission ("CFTC"), the U.S. Department of Justice Fraud Section and/or the United Kingdom Financial Services Authority in connection with investigations by such authorities into submissions made to the bodies that set LIBOR and other interbank offered rates. Additional investigations remain ongoing and there can be no assurance that there will not be additional admissions or findings of rate-setting manipulation or that future manipulation of LIBOR or other similar interbank offered rates will not occur.



Many commercial mortgage loans underlying a Client's investments bear interest at a floating rate based on LIBOR. Additional admissions or findings of manipulation may decrease the confidence of commercial mortgage borrowers in LIBOR and lead such borrowers to look for alternative, non-LIBOR-based types of financing, such as fixed rate loans or bonds or floating rate loans based on non-LIBOR indices. An increase in alternative types of financing at the expense of LIBOR-based syndicated commercial mortgage loans may adversely affect the value of a Client's investments or make it more difficult for a Client to source investments.

Interest Rate Fluctuations

The loans comprising or underlying a Client's portfolio (including loans underlying and collateralizing CMBS and CRE-CDO investments) may bear interest at fixed rates or at variable rates. Generally, if market interest rates fall, fixed rate investments will become more valuable, whereas if market interest rates rise, fixed rate investments will become less valuable. The value of variable rate investments generally will be less affected by fluctuations in market interest rates, but the cash flow generated by floating rate investments will decline if market interest rates decline. A loan comprising or underlying a Client's investment may permit the borrower to repay prior to stated maturity and, if market interest rates decline, it is likely that the borrower will seek to prepay its loan in order to refinance at lower rates. If that happens, such Client will lose the benefit of the above-market interest rate payments it otherwise would have received on the prepaid loan. This scenario might occur on multiple loans underlying an investment, which could adversely affect the value of the investment.

Credit Ratings

Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of such quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value and, therefore, credit ratings by these agencies may not fully reflect the true risks of investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, such that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of investments are only one of the factors indicating investment quality.

A Client may invest in CMBS tranches and CRE-CDOs that are rated below investment grade. Securities with such ratings have greater credit and liquidity risk than more highly rated securities.

A Client may also invest in CMBS tranches and CRE-CDOs that were originally rated investment grade at issuance but may now be rated below investment grade by Standard & Poor's, Moody's or Fitch. These high yield securities generally pay a premium above investment grade tranches or investment grade issuers because they are subject to greater risks. These risks, which reflect the speculative character of the securities, may include greater volatility, greater risk of default, greater sensitivity to general economic or industry conditions and a lack of attractive resale opportunities. If C-III is unable to correctly evaluate the value of the securities in which a Client invests, or the probability that such Client will receive distributions or repayments on such securities, then the Client may lose part or all of its investment in such securities. Additionally, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by C-III, if at all. There is no assurance that a Client's investment objectives with respect to below-investment grade legacy CMBS and CRE-CDOs will be realized or that there will be any return on its investment in such securities.



Moreover, because C-III may seek out investments in legacy CMBS that have experienced deteriorations in credit quality and that have been downgraded by credit rating agencies, there is heightened risk that the credit quality of such investments will deteriorate further and that their credit rating could be further downgraded after a Client has acquired the investment. Any downgrades of the credit ratings of a Client's investments may adversely affect their value and the value of such Client.

Investment Portfolio Financing Risks

Inability to Obtain Leverage. A Client's returns may be dependent upon its ability to grow its portfolio of invested assets through the use of leverage. A Client's ability to obtain the leverage necessary on attractive terms will ultimately depend upon the market's availability and the Client's ability to maintain interest coverage ratios meeting market underwriting standards which will vary according to lenders' assessments of the Client's creditworthiness and the terms of the borrowings. In addition, due to the volatility fueled by the subprime and broader residential mortgage lending market contagion, the market for capital markets financing transactions is effectively closed and traditional financing structures (secured facilities, credit repurchase and warehousing facilities) are not readily guaranteed to be available on attractive terms. The failure to obtain leverage at the contemplated levels, or to obtain leverage on attractive terms, could have a material adverse effect on a Client.

Leverage of Investments. A Client may leverage its investments with recourse or non-recourse debt financing. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. Additionally, the use of leverage on any particular investment will increase the exposure of such investment to adverse economic factors such as rising interest rates, severe economic downturns or deterioration in the condition of the real estate investment or its market. In the event a real estate investment is unable to generate sufficient cash flow to meet its principal and interest payments on its indebtedness, the value of a Client's equity investment in such real estate investment could be significantly reduced or even eliminated. In addition, if a property is mortgaged to secure payment of indebtedness and a Client is unable to meet its mortgage payments, the property could be foreclosed upon or otherwise transferred to the mortgagee, with a consequent loss of income and asset value to such Client.

In addition, a Client may have indebtedness that is directly or indirectly collateralized by multiple investments. Indebtedness that is secured by multiple investments may cause a loss on any one investment to result in losses on other investments.

A Client may obtain a subscription facility, which may be secured, among other things, by the interests of the investors in the Client and by their obligations to make capital contributions. Any inability of a Client to repay such borrowings could enable a lender to take action against the Client's investors.

Risks of Insufficient Cash Flow. A Client will be subject to the risks normally associated with debt financing, including the risk that such Client's cash flows may be insufficient to meet required payments of principal and interest. Alternatively, a Client's cash flows may be sufficient to satisfy the debt service on its debt financing, but such Client may not be able to retire the entire outstanding principal at maturity. Therefore, a Client may be required to refinance at least a portion of its outstanding debt when it matures. There is a risk, however, that a Client may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of the existing debt.



Risks of Forfeiture on Default. Many Client investments may be acquired, redeveloped and/or developed to some extent through borrowings, generally through the use of bank credit facilities, mortgage loans on real estate and other borrowings. Accordingly, if a Client cannot satisfy its obligations under any debt instrument, then the unpaid amounts likely will promptly become due and, thus, such Client may be required to forfeit the asset serving as collateral for debt secured by the affected asset(s). Forfeiture of an asset or foreclosure upon an event of default under a debt instrument will likely decrease or eliminate any proceeds from the disposition of such asset, thereby decreasing a Client's return.

Risks of Credit Facilities. A Client may enter into a credit facility to, among other things, finance the acquisition of its investments. Any such credit facility might contain a number of covenants that, among other things, restrict the ability of the Client and any subsidiary, if applicable, to: (i) acquire or dispose of investments; (ii) incur additional indebtedness; (iii) make cash distributions; (iv) create liens on its investments; (v) make capital calls to the Client's investors; (vi) amend certain documents, such as a Partnership Agreement, subscription agreements and any subsidiary's organizational documents, if applicable; (vii) engage in certain transactions with affiliates; and (viii) otherwise restrict the activities of the Client (including its ability to acquire additional investments) without the consent of the lenders. In addition, such a credit facility may require the Client to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. These types of covenants may prevent the Client from taking actions that otherwise would be beneficial for the Client and its investors.

Posting additional collateral to support the Client's credit facilities will reduce its liquidity and limit its ability to leverage the Client's assets. In the event the Client does not have sufficient liquidity to meet such requirements, lending institutions can accelerate the Client's indebtedness, increase interest rates and terminate its ability to borrow. Such a situation likely would result in a rapid deterioration of the Client's financial condition and solvency. Any default by the Client under such credit facility could result in adverse consequences for the Client.

Risks of Leverage. The amount of borrowings and leverage which a Client may have outstanding, and/or to which its investments may be subject, at any time may be large in relation to its capital and available capital commitments. Although the use of leverage may enhance returns, it will also substantially increase the risk of loss. Because many borrowings may be cross-collateralized, it is likely that the Client could experience concurrent forced sales of multiple financed assets, accompanied by attendant losses upon lender liquidations. Also, the Client may be exposed to cross-default risk if the Client and/or other funds under common management by C-III enter into financing arrangements that contain cross-default provisions which result in a default under the Client's financing arrangement if a related fund defaults. The amount of borrowings and leverage which a Client may have outstanding and/or to which its investments may be subject could result in the complete loss in the value of the Client if the Client is required to satisfy indebtedness in excess of the Client's aggregate assets.

Rising Interest Rates on Borrowings Would Increase Costs. A Client may incur variable rate indebtedness under credit facilities. In such a case, an increase in interest rates would increase the Client's interest costs, thereby, among other things, decreasing the amount of available funds for distribution to its investors. Increases in interest rates also may cause a reduction in the value of the Client's investments. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Client. A Client may employ a hedging strategy to limit the effects of changes in interest rates on its operations, including engaging in

interest rate swaps, caps, floors and other interest rate exchange contracts. There is a cost associated with the use of these types of derivatives to hedge a Client's assets and liabilities. Moreover, there is no perfect hedge for any investment, and a hedge may not perform its intended use of offsetting losses on an investment. With respect to certain potential hedge instruments, a Client is exposed to the risk that the counterparties with which such Client trades may cease making markets and quoting prices in such instruments, which may render the Client unable to enter into an offsetting transaction with respect to an open position. Consequently, the profitability of a Client may be adversely affected during any period as a result of changing interest rates.

Counterparty Risk. A Client will be subject to the risk of the inability of a lender or swap counterparty to perform with respect to a loan or derivative transaction, whether due to insolvency, bankruptcy or other causes, which could subject such Client to substantial losses. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Investment Manager has concentrated the Client's transactions with a single counterparty or small group of counterparties.

Portfolio Acquisition Risks

A Client may acquire multiple assets in a single transaction. Portfolio acquisitions are more complex and expensive, however, than single asset acquisitions, and the risk that a multiple asset acquisition will not close may be greater than in a single asset acquisition. A seller may require that a group of assets be purchased as a package, even though one or more of the assets in the portfolio does not satisfy a Client's investment criteria (in such a case, the Client may attempt to make a joint bid with another buyer that may default on its obligations, or the Client may purchase a portfolio of assets with the intent of subsequently disposing of those assets that do not satisfy its criteria).

Multi-Step Transactions

In the event that a Client chooses to effect a transaction by means of a multi-step acquisition, there can be no assurance that all of such required steps can be successfully consummated. This could possibly result in a Client owning a significant real estate investment without having working control over the assets or access to its cash flow to service debt incurred in connection with the acquisition and without being able to dispose of such position at prices equal to or greater than its purchase price.

Acquisitions through Partnerships and Joint Ventures

Instead of purchasing an investment directly, a Client may invest as a partner or a co-venturer with respect to an investment. A partnership or joint venture investment may, under certain circumstances, involve risks not otherwise present, including the possibility that a Client's partner or co-venturer might become bankrupt or otherwise have financial difficulties that negatively affect an investment or the ability to consummate an investment, that such partner or co-venturer might at any time have economic or other business interests or goals that are inconsistent with the business interests or goals of a Client or that such partner or co-venturer may be in a position to take action contrary to the instructions or the requests of a Client or contrary to such Client's policies or objectives. Such investments may also have the potential risk of impasse on decisions because neither the partner nor the co-venturer would have certain controls over the partnership or joint venture.

Controlling Person Liability

A Client may effect an investment through the buyout or acquisition of a controlling interest in a real estate company. The acquisition of a company has certain risks over and above the risks associated with the purchase of properties directly. In addition, the exercise of control over an entity can impose 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 characteristic of business ownership may be ignored. If these liabilities were to arise, a Client might suffer a significant loss.

Real Estate Investment Trusts (“REITs”)

A Client may invest a portion of its assets in a REIT and, accordingly, such Client may also be subject to certain risks associated with the direct investment in a REIT. A REIT may be affected by changes in the value of its underlying properties and by defaults by borrowers or tenants. Furthermore, a REIT is dependent upon specialized management skills, has limited diversification and is, therefore, subject to risks inherent in financing a limited number of projects. A REIT depends generally on its ability to generate cash flow to make distributions to its shareholders, and certain REITs have self-liquidation provisions by which mortgages held may be paid in full and distributions of capital returns may be made at any time. In addition, the performance of a REIT may be affected by changes in the tax laws or by its failure to qualify for tax-free pass-through of income.

Forward-Looking Statements

A Client’s discussion materials contain forward-looking statements and descriptions of goals and objectives. Although these forward-looking statements and stated goals and objectives are based upon assumptions that are believed to be reasonable, actual results of operations and achievements may differ materially from the statements, goals and objectives set forth in the discussion materials.

Regulatory Changes

A wide variety of regulatory changes are in various stages of proposal and adoption by the U.S. Government through statutes and by rule makings by a number of key regulatory agencies, including the SEC, the Federal Deposit Insurance Corporation (“**FDIC**”) and the Federal Reserve Board. Many of the proposed or adopted changes will make the issuance or holding of mortgage-backed securities and asset-backed securities more burdensome. The SEC has re-proposed rules that, if adopted, would substantially revise existing rules regarding the offering process, disclosure and reporting for publicly issued as well as privately-placed asset-backed securities. Both FDIC-adopted changes and SEC-proposed changes include requirements that the sponsor or an affiliate of the sponsor in certain securitizations retain specified minimum levels of credit risk in such securitizations. Similar rules in Europe restrict ability of certain financial institutions to purchase securities issued by securitization vehicles for which the sponsor or originator has not retained sufficient risk. The liquidity of investments in CMBS and CRE-CDOs may be impaired by these regulatory changes, which could adversely affect a Client. Furthermore, increased costs of doing business discourage sponsors or originators from issuing such securities, resulting in a less liquid and efficient market for them, and potentially limiting the investment choices available to a Client. While it is unlikely that the legacy CMBS and legacy CRE-CDOs that a Client may purchase in the secondary market will be subject to many of the requirements included in the new rules, there is no guarantee that additional regulations would not negatively affect the value or the



availability of the CMBS and/or CRE-CDOs targeted by a Client. Moreover, if a Client invests in new-issue CMBS and/or CRE-CDOs, then such investments may be subject to the new rules, which could result in additional costs to such Client.

POTENTIAL LOSS OF INVESTMENT OPPORTUNITIES

Certain Clients, including RF I and RF II, intend to invest in opportunities primarily arising out of the special servicing portfolio of C-III Asset Management LLC (“**C-III Asset Management**”), an affiliate of C-III IM that serves as the special servicer of certain CMBS and CRE-CDOs. In its role as the special servicer, C-III Asset Management has certain contractual obligations to the CMBS trusts, pursuant to which it performs services under the pooling and servicing agreements, and holds certain contractual rights, including rights to acquire loans or real estate assets associated with the CMBS (and the CRE-CDOs, as described below) in C-III Asset Management’s portfolio, at a price equal to “fair value,” as well as a “last look” in connection with the resolution of a defaulted loan or REO (collectively, “**Purchase Rights**”). These same Purchase Rights may also be granted to the controlling class certificateholder of a CMBS trust. In most cases, affiliates of C-III are either the controlling class certificateholder or have the authority to act as the controlling class certificateholder on behalf of certain entities that are less than 100% owned by C-III. C-III believes that the Purchase Rights may be a significant source of investment opportunities for certain Clients. There can be no assurance, however, that C-III Asset Management will remain in its role as special servicer throughout the term of each CMBS or that a C-III affiliate will remain or have the ability to act as controlling class certificateholder throughout the term of each CMBS. As a result, C-III Asset Management and the C-III controlling class certificateholder affiliates could lose the Purchase Rights, including the right to acquire assets at a price equal to “fair value” and its “last look” in connection with the resolution of a defaulted loan or REO. The loss of these rights would significantly diminish such Clients’ investment opportunities.

Similarly, C-III believes that the Purchase Rights held by C-III in its capacity as the collateral manager or collateral administrator of the CRE-CDOs may be a significant source of potential investment opportunities for such Clients. Likewise, there can be no assurance that C-III will remain the role of collateral manager or collateral administrator throughout the term of each CRE-CDO. As a result, in such case, C-III could lose its Purchase Rights. The loss of these rights would significantly diminish such Clients’ investment opportunities.

DERIVATIVES RISK

A Client may utilize a variety of derivative instruments primarily for hedging and risk management purposes, although a Client may also use derivative instruments for investment purposes. Derivative instruments include futures contracts, forward contracts, options on futures contracts, indexed securities, credit default swaps, interest rate swaps, caps, floors and other swap agreements. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, volatility risk, credit risk, management risk and counterparty risk. Derivatives prices can be volatile, market movements are difficult to predict and financing sources and related interest rates are subject to rapid change. One or more markets may move against the derivatives positions held by the Client, thereby causing substantial losses. Many of these instruments are not traded on exchanges but rather through an informal network of banks and dealers who have no obligation to make markets in them and can apply essentially discretionary margin and credit requirements (and, thus, in effect force the Client’s derivative position to be closed-out).

Risk of Derivatives Instruments

Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances. Although both over-the-counter (“OTC”) and exchange-traded derivatives markets may experience the lack of liquidity, OTC non-standardized derivative transactions generally are less liquid than exchange-traded instruments. The illiquidity of the derivatives markets may be due to various factors, including congestion, disorderly markets, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. The absence of liquidity may make it more difficult for the Client to ascertain a market value for such instruments. In addition, in volatile markets the Client may not be able to close out a position without incurring a loss due to illiquidity. The inability to close derivatives positions also could have an adverse impact on the Client’s ability to effectively hedge its portfolio.

When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent a Client from achieving the intended hedging effect or expose such Client to the risk of loss. The imperfect correlation between the value of a derivative and the underlying assets of the Client may result in losses on the derivative transaction that are greater than the gain in the value of the underlying assets in such Client’s portfolio. Trading in derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading in derivative instruments will magnify the gains and losses experienced by a Client. If the market moves against the Client’s position or margin levels are increased, the Client may be called upon to pay substantial additional funds on short notice to maintain its position. If the Client were to fail to make such payments, its position could be liquidated at a loss, and the Client would be liable for any resulting deficit in its account. If the Client invests in a derivative instrument, it could lose more than the principal amount invested. Derivatives are highly specialized instruments that require investment techniques and risk analyses different from those associated with equities and bonds. The use of a derivative instrument requires an understanding not only of the underlying instrument but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the Client and the ability to forecast price, interest rate or currency rate movements correctly. Furthermore, the ability to successfully use derivative instruments depends on the ability of C-III to predict pertinent market movements, which cannot be assured. Thus, the use of derivative instruments for hedging, currency or interest rate management, or other purposes may result in losses greater than if they had not been used.

Derivatives Counterparty Risk

Derivatives also are subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual payment obligation (whether a clearing organization in the case of cleared instruments or another third party in the case of OTC instruments). Certain participants in the derivatives market, including larger financial institutions, have experienced significant financial hardship and deteriorating credit conditions. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract, a Client may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. In such circumstances, a Client may obtain only a limited recovery or may obtain no recovery. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated transactions with a single counterparty or small group of counterparties. The

counterparty risk for exchange-traded or cleared derivatives is generally lower than for uncleared OTC derivatives since generally a clearing organization becomes substituted for each counterparty to a cleared derivative. The clearing organization, in effect, guarantees the parties' performance under the contract as each party to a trade looks only to the clearing house for performance of financial obligations. However, there can be no assurance that the clearing house, or its members, will satisfy its obligations to the Client. In addition, a failure by a dealer to take delivery of the underlying securities in connection with an OTC derivative transaction (for example, an option) would result in the loss of the premium paid by the Client as well as the loss of the expected benefit of the transaction.

Regulatory Changes

The derivatives market is subject to a changing regulatory environment. In particular, adoption of derivatives legislation by the United States Congress, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), could have an adverse effect on the Client's ability to use derivative instruments. The Dodd-Frank Act provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. These new margin and regulatory requirements will increase the overall costs for OTC derivatives dealers. Dealers can be expected to try to pass those increased costs along, at least partially, to market participants such as Clients in the form of higher fees or less advantageous dealer marks. The overall impact of the Dodd-Frank Act on Clients is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

A Client may deposit funds required to margin open positions with a clearing broker registered as a "futures commission merchant" ("**FCM**"). The U.S. Commodity Exchange Act ("**CEA**") requires an FCM to segregate all funds received from customers with respect to any orders for the purchase or sale of U.S. domestic futures contracts and cleared swaps from the FCM's proprietary assets. However, an FCM holds all funds and other property received from its customers on a commingled basis in an omnibus account and may freely access and invest any such funds in certain permitted instruments. There is a risk that assets deposited by the Client with any FCM as margin for futures contracts or cleared swaps may, in certain circumstances, be used to satisfy losses of other clients of the Client's clearing broker. In addition, the assets of a Client might not be fully protected in the event of such Client's clearing broker's bankruptcy, as such Client would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker's combined domestic customer accounts.

The CEA requires a clearing organization approved by the CFTC as a derivatives clearing organization to segregate all funds and other property received from a clearing member's clients in connection with domestic futures, swaps and option contracts from any funds held at the clearing organization to support the clearing member's proprietary trading. A clearing organization may use the assets of a non-defaulting customer held in an omnibus account at the clearing organization to satisfy payment obligations of a defaulting customer of the clearing member to the clearing organization. As a result, in the event of a default of the clearing broker's other clients or the clearing broker's failure to extend its own funds in connection with any such default, the Client would not be able to recover the full amount of assets deposited by the clearing broker on behalf of the Client with the clearing organization.



LIMITED LIQUIDITY OF AN INVESTMENT IN A FUND OR CDO

Interests in a Fund (and, to a certain extent, a CDO) are generally illiquid and may not be transferred or sold except as permitted in the Client's governing documents.

GENERAL MARKET RISKS

A Client's strategy may be based, in part, upon the premise that real estate businesses and assets will be available for purchase by such Client at prices that C-III considers favorable. Further, a Client's strategy may rely, in part, upon local market recoveries continuing during the term of such Client. No assurance can be given that real estate businesses and assets can be acquired at favorable prices or that the market for such assets will recover or continue to improve, as the case may be, since this will depend, in part, upon events and factors outside the control of C-III.

Competition

The activity of identifying, completing and realizing attractive real estate investments is highly competitive and involves a high degree of uncertainty. Notwithstanding C-III Asset Management's special servicer role and related contractual rights, the acquisition of investments may be based on competitive bidding, and other competitors for the acquisition, development and redevelopment of properties, including REITs, insurance companies, pension funds, partnerships, investment companies and real estate investment funds, may have greater economic and personnel resources than those of a Client or better relationships with sellers of the investments, lenders and others, thereby putting such Client at a competitive disadvantage. These entities, because of their resources, may also generally be able to accept more risk than a Client prudently can manage. This competition may generally reduce the number of suitable prospective investments offered to a Client and increase the prices for properties of the type such Client would likely pursue. In addition, no assurance can be given that a Client will be able to make investments on terms, including financing, favorable to such Client. As a result, a Client may not be able, or have the opportunity, to make suitable investments on favorable terms, which could have an adverse effect on such Client's results of operations and hinder such Client's returns. There can be no assurance that a Client will be able to locate, complete and exit investments which satisfy such Client's rate of return objectives, or realize upon their values, or that such Client will be able to invest fully its committed capital.

Deterioration of U.S. Financial Systems

Events over the course of the past years in the subprime mortgage market and other areas of the fixed income markets have caused significant dislocations, illiquidity and volatility in the mezzanine debt, structured credit and high-yield bond markets, as well as in the wider global financial markets. The scale of the credit freeze starting in mid-2008 shook investor, consumer and corporate confidence to the point that macroeconomic fundamentals turned significantly downward. This downturn has resulted in high-profile bankruptcies, government seizures and forced mergers/acquisitions transactions, among other broad effects of fundamental deterioration. In addition, the turmoil in the financial system has had an adverse impact on the availability of credit to businesses generally and has led to an overall weakening of global economies. The events in the marketplace may materially restrict the ability of a Client to sell or liquidate investments at favorable times or for favorable prices. In particular, a Client's investment strategy with respect to its investments may rely in part on the stabilization or improvement of the conditions in the global economy generally and credit markets specifically. Absent such a recovery or in the event of a further market deterioration, the value of a Client's investments may be significantly reduced.



Also, a Client's ability to generate attractive investment returns for its investors may be materially and adversely affected to the extent such Client intends, but is unable, to obtain favorable financing terms for its investments. There can be no assurance as to the amelioration or cessation of the current market dislocation or financial system weakness. Because a Client may invest in subordinated debt instruments, it is at greater risk of losing the entire value of such investments than if it invested in senior debt instruments.

CONFLICTS OF INTEREST

Broad and Wide-Ranging Activities

C-III and its affiliates engage in a broad spectrum of activities, including, but not limited to, financial advisory services, underwriting, financing, capital markets, special and primary commercial loan servicing, sponsoring and managing private investment funds and other activities. In the ordinary course of its business, C-III engages in activities where its interests or the interests of its affiliates may conflict with the interests of its Clients.

Principal Transactions

A Client may acquire investments from, or it may sell investments to, C-III or its affiliates, provided that such transactions are made in accordance with the Advisers Act and such Client's governing documents.

Conflicts Affecting the Acquisition of Investments

Affiliates of C-III are engaged by, and perform a range of services for, many of the CMBS trusts and CRE-CDO vehicles that issue the CMBS and CRE-CDOs, respectively, which may be targeted by a Client. Insofar as C-III Asset Management serves as the special servicer to CMBS trusts that issue CMBS or C-III serves as the collateral manager of CRE-CDOs, in each case in which a Client is invested, such C-III affiliate may have contractual obligations that conflict with the interests of such Client.

C-III and its affiliates also may receive indirect benefits from investments made by a Client. The governing documents of CMBS trusts and CRE-CDO vehicles in the portfolio serviced by C-III Asset Management generally grant to the controlling classholder (typically an affiliate of C-III) and/or C-III Asset Management, in respect of the CMBS, and the collateral manager (which role is performed by C-III or its affiliates), in respect of the CRE-CDOs, certain Purchase Rights, and for C-III affiliates to earn certain fees upon the disposition of such assets by the CMBS trust or CRE-CDO vehicle. Furthermore, C-III, in its capacity as the CRE-CDO collateral manager for many vehicles in which a Client may seek to invest, may be paid certain fees in exchange for collateral manager services provided to such vehicles. The fact that C-III Asset Management, C-III or their affiliates may be engaged by the issuers of CMBS or CRE-CDOs in which a Client may invest presents a conflict of interest relating to investment decisions undertaken by C-III on behalf of a Client.

Other Activities of C-III

Except as limited by a Client's governing documents, C-III and its directors, members, partners, shareholders, officers, employees, agents and affiliates (collectively, the "**Affiliated Parties**") may conduct any other business, whether or not such business is in competition with a Client. Without limiting the generality of the foregoing, any of the Affiliated Parties may act as



investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms (such other entities, “**Affiliated Investment Vehicles**”). Such Affiliated Investment Vehicles may have investment objectives or may implement investment strategies similar to or different from those of a Client. There is no limit to the number of Affiliated Investment Vehicles that may be managed or advised by any of the Affiliated Parties.

In addition, the Affiliated Parties may, through other investments, including other Affiliated Investment Vehicles, own, bid for or sell interests in the securities or own, bid for or sell interests senior to or subordinate to securities in which a Client invests, as well as interests in investments in which such Client does not invest, and in some cases the Affiliated Parties may engage in transactions directly with a Client, provided that such Client will not acquire assets from or sell assets to C-III or its affiliates except in accordance with such Client’s governing documents and the Advisers Act. Any bid by an Affiliated Party on investments held by a Client may have an adverse impact on the price of such investments. The Affiliated Parties may also have investments in their own names and in certain of the entities managed by the Affiliated Parties. The Affiliated Parties may give advice or take action with respect to such other Affiliated Investment Vehicles that differs from the advice given with respect to a Client. Furthermore, C-III may determine, in its sole and absolute discretion, not to pursue certain transactions or potential investments on behalf of a Client because of its other businesses or relationships between one or more Affiliated Parties and Affiliated Investment Vehicles.

Allocation of Investment Opportunities and Resources; Lack of Exclusivity

C-III and its affiliates may serve as a sponsor of and/or an investment adviser to Affiliated Investment Vehicles, some or all of which may have investment objectives substantially similar to or in competition with those of a Client. C-III and its affiliates will be permitted to offer or refer investment opportunities to Affiliated Investment Vehicles in addition to, or instead of, referring them to a Client. In addition, C-III and its affiliates may also offer co-investment opportunities to third parties. In allocating investment and co-investment opportunities between a Client and any Affiliated Investment Vehicles or other co-investors, C-III and its affiliates may exercise discretion, taking into account various factors including the various investment objectives, the targeted rates of return, diversification of a Client’s holdings, available capital commitments and the composition of the various entities taken as a whole. A Client may receive a smaller or no allocation or inferior terms in particular investments than it would otherwise have received if C-III and/or its affiliates did not advise, and allocate opportunities to, Affiliated Investment Vehicles or co-investors. A Client may not be afforded any opportunity to make a particular investment because C-III and/or its affiliates may offer such opportunity to an Affiliated Investment Vehicle.

Services between C-III and its Clients

C-III and its affiliates are engaged in a number of real estate and other services businesses. Although not likely to occur, if a Client acquires title to or otherwise gains control of real property, such Client may engage C-III and/or one or more of its affiliates to provide property-level services in respect of such real property, including, without limitation, property management, leasing, sales brokerage, construction, development and financing services. C-III and its affiliates may also provide other services to a Client, including, without limitation, cash management, administrative, custodial, trustee, distribution, banking, lending, short-term credit and other financial and securities services. No such service provider will bear any responsibility

for selecting the investments or for their performance solely as a result of providing such services to a Client. To the extent C-III or any of its affiliates perform any services, C-III or such affiliates may charge market rates customarily charged for similar services by persons engaged in the same or substantially similar activities and the terms and conditions of any such services shall be at least as favorable to such Client as the terms reasonably expected by C-III to be available in arm's-length transactions with qualified third-party providers of such services, although such compensation will not actually be determined through arm's-length negotiations and none of C-III or its affiliates will guarantee the performance by its affiliates of any services provided to a Client.

Additional Fees to C-III or its Affiliates

In some instances, CMBS trusts may engage C-III or its affiliates to perform brokerage or other business-to-business services in connection with the disposition of assets. C-III or its affiliates thereof may earn or share in brokerage commissions or other fees paid by the CMBS trusts upon the closing of the sale of assets by the CMBS trusts, including sales to a Client, as compensation for such brokerage or other business-to-business services. Furthermore, C-III Asset Management, in its capacity as the special servicer, and C-III, in its capacity as the CRE-CDO collateral manager, may be paid resolution or liquidation fees by the seller of the asset acquired by a Client, which payment presents a conflict of interest insofar as C-III consults with C-III Asset Management or its affiliates generally in respect of the pipeline of investment opportunities.

ITEM 9: DISCIPLINARY INFORMATION

Neither C-III nor any of its management persons have been involved in any material legal or disciplinary events that would be material to your evaluation of C-III's advisory business or the integrity of C-III's management.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. REGISTERED BROKER-DEALER OR REGISTERED REPRESENTATIVE

Anubis, an affiliate of C-III IM indirectly owned by ICG, is registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ("**FINRA**"). Anubis is also registered as a broker-dealer in Alabama, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin and Wyoming.

Anubis may be retained by an affiliate of C-III IM to serve as a placement agent with respect to the offer and sale of interests in a Fund to be managed by C-III IM. Anubis is currently serving as placement agent for the offering of limited partnership interests in RF II.

Certain of C-III's management persons or employees of C-III's affiliates are or may become a registered representative and/or principal of Anubis and, when such person engages in securities-related transactional activities, will be subject to Anubis' policies and procedures in addition to C-III's policies and procedures.



B. REGISTERED FUTURES COMMISSION MERCHANT; COMMODITY POOL OPERATOR, COMMODITY TRADING ADVISOR OR ASSOCIATED PERSON

HY Directives III is an exempt commodity pool operator for HYREDF III. Certain of C-III IM's management persons or employees of C-III IM's affiliates may provide services for HY Directives III.

C. OTHER RELATIONSHIPS OR ARRANGEMENTS

C-III has other financial industry affiliations and activities (described below), and C-III and its affiliates may enter into transactions directly with (to the extent permitted by applicable law), and/or on behalf of, a Client, which may present certain conflicts of interest as described below.

RELYING ADVISERS

- (a) JERIT Manager serves as external manager for JERIT;
- (b) JERIT serves as collateral administrator for JER 2005 CDO;
- (c) CRE CDO Manager serves as collateral administrator for JER 2006 CDO; and
- (d) ICG serves as the managing member of IFI.

AFFILIATES

- (a) RFI Directives serves as the general partner of RF I;
- (b) RF Directives II serves as the general partner of RF II;
- (c) HY Directives I serves as the general partner of HYREDF I;
- (d) HY Directives III serves as the general partner of HYREDF III;
- (e) CRESS Directives serves as the managing member of CRESS Fund;
- (f) CUCA serves as the managing member of CUC I;
- (g) Island Directives III serves as the general partner of IF III;
- (h) IOP Directives serves as the general partner of IOP;
- (i) IOP Directives II serves as the general partner of IOP II; and
- (j) IFI serves as the investment manager of IOP and IOP II.

Certain of C-III IM's management persons or employees of C-III IM's affiliates may provide services for a Relying Adviser or an Affiliate.



OTHER FINANCIAL INDUSTRY AFFILIATES

C-III Asset Management, an affiliate of C-III IM owned by C-III Parent, is a primary and/or special servicer of various loans that serve as collateral for (a) CMBS issued by third parties that are not Clients and (b) securities issued by certain CRE-CDOs that are Clients. C-III Asset Management, as special servicer, has been awarded the level 1 servicer rating of “CSS1-” by Fitch Ratings, the highest ranking of “Strong” by Standard & Poor’s and the highest special servicer rating of “MOR CS1” by Morningstar. C-III Asset Management is a highly rated primary servicer as well. C-III Asset Management has certain contractual obligations to the CMBS and CRE-CDO issuers under loan servicing agreements pursuant to which it performs services.

C-III Asset Management, in its capacity as special servicer for loans owned by issuers of CMBS and CRE-CDOs, has certain Purchase Rights that may be a source of potential investment opportunities for a Fund. Purchase Rights may also be held by a Client in its capacity as controlling class certificateholder (or otherwise) of a CMBS trusts and/or by C-III (or an affiliate) in its capacity as a representative of such Clients.

C-III Asset Management, in its capacity as special servicer for loans owned by issuers of CMBS and CDOs, may be paid resolution or liquidation fees by the seller of an asset acquired by a Client. If a Client were to pay a higher amount than the seller would receive from another buyer, any liquidation or resolution fees received by C-III Asset Management would be incrementally increased by the percentage due on the price differential. Although these fees would be owed to C-III Asset Management irrespective of the identity of the acquirer of the asset, the timing of the receipt of such fees by C-III Asset Management and the amount of such fees may be affected by C-III IM’s selection of the asset as an investment for a Client.

C-III Commercial Mortgage LLC (“**C-III Commercial Mortgage**”), an affiliate of C-III IM and owned by C-III Parent, and its wholly-owned subsidiary, C-III Mortgage Funding LLC (“**C-III Mortgage Funding**”), are principally engaged in the origination of commercial real estate mortgage loans. C-III Commercial Mortgage and C-III Mortgage Funding are licensed as finance lenders in California. C-III Commercial Mortgage is licensed as a Money Broker in North Dakota and as a Non-Residential Mortgage Lender in South Dakota. Certain of the loans originated by C3CM (or senior interests in such loans) may be sold to certain of the CDOs managed and/or administered by C-III. In addition, junior interests in certain of those loans (*i.e.*, participations and/or B-Notes) may be sold to a Fund (such as HYREDF I). C-III Commercial Mortgage may also provide financing to a Fund (such as RF I and/or RF II) with respect to an underlying real estate investment, and may sell such loan (or senior interest in such loan) to a CDO or the junior interest to a Fund.

C-III Parent, the parent company of C-III IM, and/or its affiliates may serve as the sponsor of a Fund for which (a) C-III may serve as investment manager, investment adviser or other similar capacity and (b) an Affiliate may serve as general partner or managing member. In addition, Anubis may serve as the placement agent for such Fund.

A Client (or C-III or other affiliate on behalf of such Client) may retain affiliates of C-III (as described below) to provide necessary services and transactions relating to such Client’s investments, including, without limitation, property management, leasing, sales brokerage, title, construction, development, financing, loan servicing (either primary or special), marketing or other services. C-III or such affiliates shall receive fees from the Fund



customarily charged for similar services by persons engaged in the same or substantially similar activities and the terms and conditions of any such services shall be at least as favorable to such Client as the terms reasonably expected by C-III to be available in an arm's-length transaction with an independent third party, provided that such persons are generally in the business of providing such services, although such compensation will not actually be determined through arm's-length negotiation. In addition, such affiliates may earn or share in brokerage commissions or other fees paid by a Client upon the closing of the sale of assets by such Client, including a sale to another Client, as compensation for such brokerage or other services.

C-III Realty Services LLC ("**C-III Realty Services**"), an affiliate of C-III owned by C-III Parent, is licensed as a real estate brokerage firm in Florida, Georgia, Louisiana, Mississippi, Missouri, New Mexico, New York, North Carolina, South Carolina, Tennessee and Virginia. C-III Realty Services (Texas) LLC is licensed as a real estate brokerage firm in Texas. C-III Realty Services provides commercial real estate brokerage services. C-III may retain C-III Realty Services in connection with the purchase or sale of a real estate asset to or from a Client and may earn or share in brokerage commissions or other fees paid by a Client upon the closing of the sale of assets by such Client as compensation for such real estate brokerage services.

ICG Realty LLC ("**ICG Realty**"), an affiliate of C-III owned by ICG, is licensed as a real estate brokerage firm in New York and provides commercial real estate brokerage services. C-III may retain ICG Realty in connection with the purchase or sale of a real estate asset to or from a Client and may earn or share in brokerage commissions or other fees paid by a Client upon the closing of the sale of assets by such Client as compensation for such real estate brokerage services.

New America Network Inc. ("**NAI**"), an affiliate of C-III owned by C-III Parent, is a global network of independent commercial real estate brokerage firms, each of which is appropriately licensed. NAI is licensed as a real estate brokerage firm in New Jersey and Pennsylvania. NAI Global of New York is licensed as a real estate brokerage firm in New York. C-III may retain NAI in connection with the purchase or sale of a real estate asset to or from a Client and/or leasing services for an asset owned by a Client and may earn or share in brokerage or leasing commissions or other fees paid by a Client as compensation for such real estate brokerage services.

U.S. Residential Group LLC ("**USRG**"), an affiliate of C-III owned by C-III Parent, is a real estate property management servicing company. USRG is licensed as a real estate brokerage firm in Arizona, California, Colorado, Connecticut, Florida, Georgia, Indiana, Louisiana, Mississippi, Missouri, Nevada, New Jersey, New York, North Carolina, Oklahoma, Tennessee, Texas, Utah, Virginia and Washington. In addition, certain brokers of USRG are registered in Arkansas, Maryland, Nebraska, New Mexico, Oregon and South Carolina, which jurisdictions only license brokers, not brokerage firms. C-III may retain USRG to manage one or more real estate assets owned by a Client and USRG may be paid property management or other fees by such Client.

Zodiac Title Services LLC ("**Z-Title**"), an affiliate of C-III owned by C-III Parent, is a licensed title company that provides title insurance either through the Zodiac office or offices (non-affiliated) of underwriters and agents in all 50 states. Zodiac provides title insurance and related services residentially in New York. In some states, Zodiac is not the entity that issues the title insurance policy due to regulatory and/or economic factors. However, Zodiac

provides related services commercially in all 50 states. C-III or an affiliate may retain Z-Title to perform title services for one or more real estate assets owned (or to be purchased or sold) by a Client and Z-Title may be paid title insurance or other fees by such Client.

Realcapitalmarkets.com, LLC (“RCM”), an affiliate of C-III owned by C-III Parent, provides online marketing and transaction management services for sales of commercial real estate properties and notes.

Certain of C-III’s management persons or employees of C-III’s affiliates may provide services for C-III Asset Management, C-III Commercial Mortgage, C-III Mortgage Funding, C-III Parent, C-III Realty Services, ICG Realty, NAI, USRG, Z-Title and RCM.

D. RECOMMEND OTHER ADVISORS

N/A

ITEM 11: CODE OF ETHICS, SUPERVISED PERSON CONDUCT, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

A. CODE OF ETHICS

C-III strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. As such, C-III has adopted a Code of Ethics (included in the Compliance Manual) for its officers, employees and other persons who provide investment advice on behalf of C-III (each, a “**Supervised Person**”), which describes C-III’s high standard of business conduct and fiduciary duty to each Client.

C-III’s Code of Ethics is designed to ensure that the activities and interests of each Supervised Person and the personal securities transactions of each Supervised Person that has access to information regarding a Client’s investments or that are involved in making recommendations to a Client (or who have access to such recommendations) (each, an “**Access Person**”) will not interfere with making and implementing decisions in the best interest of each Client, while at the same time allowing each Access Person to invest for his or her own account (consistent with applicable law, rules and regulations and the Code of Ethics). As such, the Code of Ethics contains policies and procedures that, among other things:

- requires each Supervised Person to place the interests of each Client first and prohibits a Supervised Person from taking personal advantage of an opportunity that belongs to a Client;
- requires each Access Person to contact all personal investment transactions in compliance with the Code of Ethics and requires each Supervised Person to comply with the federal securities laws and all other applicable laws, rules and regulations;
- requires each Access Person to disclose upon hire and thereafter each personal securities account (i) held by the Access Person or by such Access Person’s spouse, minor children or others living in the Access Person’s house and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);



- requires each Access Person to disclose upon hire and each quarter thereafter all securities holdings (other than those classes of securities designated as exempt) and securities transactions (i) by the Access Person or by such Access Person's spouse, minor children or others living in the Access Person's house and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);
- requires each Access Person to provide copies of monthly and/or quarterly account statements and trade confirmations;
- requires each Supervised Person to pre-clear any securities offered in an initial public offering or private placement (including investments in hedge funds, fund-of-funds, private equity funds, venture capital funds and other unregistered pooled investment vehicles);
- require the Chief Compliance Officer to monitor the activities of each Supervised Person and Access Person to ensure compliance with the Code of Ethics and to prevent and detect violations of applicable law, violations of C-III's Code of Ethics and conflicts of interest between C-III and each Client; and
- requires each Supervised Person to acknowledge the terms of the Code of Ethics upon hire and annually (or as amended) thereafter and to certify annually as to his or her compliance with the Code of Ethics.

An investor or prospective investor may request a copy of C-III's Code of Ethics by contacting Lawrence Block, C-III's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@c3cp.com.

B. SUPERVISED PERSON CONDUCT

The Compliance Manual contains additional policies, procedures, prohibitions, reporting obligations and pre-clearance requirements that are designed to prevent Supervised Persons from engaging in activities that may interfere with making and implementing decisions in the best interest of each Client, including:

- prohibiting each Supervised Person from trading on the basis of, or misappropriating, material nonpublic or proprietary information (*i.e.*, insider trading);
- prohibiting each Supervised Person from trading securities of any issuer on C-III's restricted issuers list;
- prohibiting each Supervised Person from engaging in certain prohibited transactions, including market manipulation, front-running and trading on rumors;
- requiring each Supervised Person to report and obtain the prior approval of the Chief Compliance Officer before engaging in any outside business activity;
- requiring each Supervised Person to report any gift or entertainment (given or received) in excess of \$500 per recipient per year and to obtain the prior approval of the Chief Compliance Officer of any gift or entertainment (given or received) in excess of \$1,000 per recipient per year; and

- requiring each Supervised Person to obtain the prior approval of the Chief Compliance Officer before making any political contribution and to report each political contribution, and prohibiting certain political contributions in violation of applicable law, rule or regulation.

C. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

C-III may recommend to a Client, or buy or sell for such Client, securities in which C-III (or an affiliate) has a material financial interest.

C-III and its affiliates may engage in principal, agency cross or cross transactions with a Client, consistent with the Advisers Act, SEC rules and the policies and procedures set forth in C-III's Compliance Manual.

D. INVESTING IN ASSETS RECOMMENDED OR HELD BY A CLIENT

C-III and its affiliates may invest in the same (or related) assets that are held by, or recommended to, a Client.

E. PURCHASE AND SALES OF SECURITIES BY RELATED PERSONS

Generally, C-III does not recommend a security to a Client, or buy or sell securities for a Client account, at or about the same time that it buys or sells the same securities for its own account. In the event that a security is potentially an appropriate investment opportunity for a Client, C-III will present the opportunity to the Client's investment committee for consideration, and only in the event that the Client's investment committee declines to pursue the investment opportunity will C-III consider the investment opportunity for its own account. In addition, there may be instances where different securities of a particular issuer may be appropriate investment opportunities for both a Client and C-III (for example, one class of a CMBS issuer may be an appropriate investment opportunity for C-III while a different class of the same CMBS issuer may be an appropriate investment opportunity for a Client). C-III shall only pursue the investment opportunity if it has determined that the security being considered by it is not an appropriate investment opportunity for a Client.

ITEM 12: BROKERAGE PRACTICES

A. SELECTING OR RECOMMENDING BROKER-DEALERS FOR CLIENT TRANSACTIONS

C-III generally has the authority to determine for each Client, without obtaining specific Client consent (except as otherwise provided below), (a) the securities to be bought or sold, (b) the amount of the securities to be bought or sold, (c) the broker or dealer to be used and (d) if applicable, the commission rates paid. Limitations on C-III's authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling a Client's account, (ii) the investment strategies and objectives of each Client and (iii) a Client's governing documents. C-III may be required to obtain Client consent (or the consent of an independent representative or advisory committee, advisory management committee or investment management committee of the Client) for a principal transaction involving C-III (or an affiliate) and a Client.

Generally, in determining which broker or dealer to use, C-III evaluates the character of the market for the security, including, but not limited to, the security's price, volatility and liquidity,



as well as the size and type of transaction. Specifically, in making any such determination, C-III may consider a number of factors, including, but not limited to:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- special execution capabilities;
- reputation;
- willingness to execute related or unrelated difficult transactions in the future;
- order of call;
- on-line access to computerized data regarding each Client's account;
- performance measurement data;
- the quality, comprehensiveness and frequency of available research and related services considered to be of value; and
- the opportunity to participate in capital introduction events sponsored by the broker-dealer.

C-III is not required to weigh any of these factors equally.

In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, C-III is not required to solicit competitive bids and is not required to seek the lowest available commission cost. C-III does not negotiate "execution only" commission rates; therefore, a Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate.

1. RESEARCH AND OTHER SOFT DOLLAR BENEFITS

C-III does not currently utilize "soft dollar" credits generated by Client brokerage transactions to pay for research or other products or services other than execution from a broker-dealer or a third party. To the extent it does so in the future, C-III will operate under the "safe harbor" provided by Section 28(e) of the Securities and Exchange Act of 1934, as amended.

During the past fiscal year, (a) neither C-III nor any of its related persons acquired any products or services with Client brokerage commissions (or markups or markdowns) and (b) C-III did not direct any Client transactions to a particular broker-dealer in return for "soft dollar" benefits.

2. BROKERAGE FOR CLIENT REFERRALS

In selecting or recommending broker-dealers, C-III does not consider whether it or a related person receives Client referrals from a broker-dealer or third party.

3. DIRECTED BROKERAGE

C-III does not recommend, request or require that a Client direct it to execute transactions through a specified broker-dealer (“directed brokerage”).

4. AGGREGATE ORDERS FOR VARIOUS CLIENT ACCOUNTS

Generally, Clients do not own, or contemplate the ownership of, the same security. However, in the event that C-III determines to buy or sell the same security on behalf of more than one Client, it may, but is under no obligation to, aggregate (to the extent permitted by applicable law and regulations) the securities to be purchased or sold in order to seek more favorable prices, lower brokerage commissions or more efficient execution.

ITEM 13: REVIEW OF ACCOUNTS

A. CLIENT ACCOUNT REVIEWS

C-III generally has an investment committee and/or asset manager for each Client, and each Client may have its own investment committee (each, an “**Investment Committee**”). C-III’s Investment Committees and/or asset managers are generally responsible for recommending acquisitions and dispositions of Client assets and monitoring and reviewing on an on-going basis the investment portfolio of the Client for which it is responsible. Each Client’s Investment Committee reviews each investment recommendation(s) made by C-III’s Investment Committee for such Client and may approve, reject or take other action with respect to such recommendation.

B. CONTENT AND FREQUENCY OF REGULAR REPORTS

An investor in a Fund generally receives quarterly and annual financial information for such Fund. An investor in a CDO or JERIT receives information as provided in such Client’s governing documents and other documents provided to such investors.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

A. COMPENSATION RECEIVED BY C-III FOR CLIENT REFERRALS

No person or entity that is not a Client of C-III provides an economic benefit to C-III for providing investment advice or other services to C-III’s Clients.

Anubis, a broker-dealer registered with the SEC and various states (see Item 10A above) and a member of FINRA, may be retained by an affiliate of C-III to serve as placement agent with respect to the offer and sale of interests in a Fund to be managed by C-III. Such Fund, its general partner or managing member, or other affiliate of C-III may compensate Anubis for capital raised for such Fund.

B. COMPENSATION PAID BY C-III OR RELATED PERSON FOR CLIENT REFERRALS

C-III may compensate third parties for referring a prospective advisory client (or a prospective investor in a Fund) to it, at no additional cost to the Client (or investor). Such referral fees generally may be based on (i) the investment by such Client (or investor) or (ii) a percentage of the management fees and/or performance-based compensation earned by C-III or its affiliate. Such referral arrangements will conform to Rule 206(4)-3 under the Advisers Act.

ITEM 15: CUSTODY

The general partner or managing member of a Fund (each of which is an affiliate of C-III) is deemed to have “custody” of the assets of such Fund. Each Fund’s cash and securities is required to be maintained by a “qualified custodian” in such Fund’s name, unless the security is otherwise exempt from this requirement (*e.g.*, certain privately offered securities).

The financial statements of RF I, RF II, HYREDF I and CRESS Fund are (and the financial statements of HYREDF III will be) (a) prepared in accordance with GAAP, (b) audited by an independent accounting firm that is registered with, and subject to regular examination by, the Public Company Accounting Oversight Board (“PCAOB”) and (c) distributed to the Fund’s investors (i) within 120 days following such Fund’s fiscal year end and (ii) promptly after liquidation. Accordingly, C-III is exempt from the requirements of certain aspects of Rule 206(4)-2 under the Advisers Act for each such Fund.

The financial statements for IFI, IF III, IOP, IOP II and CUC I do not satisfy the above requirements. Accordingly, each such Fund is required (i) to have an independent accountant that is registered with, and subject to examination by, the PCAOB verify the cash and securities of such Fund by a surprise examination conducted on an annual basis pursuant to a written agreement, (ii) to ensure that certain securities that would otherwise be exempt are held by a “qualified custodian,” (iii) to provide notice containing certain information regarding such Fund’s “qualified custodian(s)” and (iv) to have a reasonable basis, after due inquiry, for believing that such Fund’s “qualified custodian” sends an account statement, at least quarterly, to such Fund and each of its investors identifying the amount of cash and each security of the Fund held by such “qualified custodian” at the end of the period and each transaction by the Fund in such account during that period. The independent accountant is required to make certain disclosures with the SEC and notify the SEC within one business day of any material discrepancies discovered during the course of the surprise custody examination. To the extent C-III sends any statements directly to such Fund or its investors, such statements are required to include a legend that cautions such Fund and each of its investors to compare the statements sent by C-III with any statements sent by such Fund’s “qualified custodian(s).”

Rule 206(4)-2 is not applicable to C-III with respect to each CDO and JERIT, because neither C-III nor any of its affiliates has “custody” (as that term is defined in Rule 206(4)-2) of the assets of a CDO or JERIT.

ITEM 16: INVESTMENT DISCRETION

C-III generally has the authority to recommend each investment decision for each Client, subject to compliance with the investment criteria, policy and guidelines contained in the governing documents of the relevant Client. Such criteria, policy and guidelines are subject to generally include, among other things:

- in the case of a C-III IM Fund, (i) approval by such Fund’s general partner or managing member, (ii) approval by such Fund’s independent representative(s) (if applicable) with respect to any

principal transaction and (iii) review and approval by such Fund's advisory committee (if applicable);

- in the case of a Managed CDO, (i) approval by the independent member of such CDO's advisory committee, advisory management committee or investment management committee, with respect to any principal transaction between the CDO and C-III or an affiliate and (ii) approval by one or more rating agencies;
- in the case of JER 2005 CDO and JER 2006 CDO, approval by one or more rating agencies; and
- in the case of JERIT, approval by JERIT's board of directors.

C-III generally has discretion to recommend the investments to be acquired and/or sold, the amount of Client capital to be invested, the brokers and dealers to execute transactions and the price and timing of a Client's purchases and sales.

C-III IM does not have investment discretion with respect to the Static CDOs.

ITEM 17: VOTING CLIENT SECURITIES

Each Client generally owns investments that are not voting securities. Therefore, a Client does not often receive proxies and C-III is not called upon to vote proxies. If C-III were to receive a proxy on behalf of a Client and is requested or required to vote a proxy, C-III will consider, among other things, the financial interests of the applicable Client and the recommendation of management on the particular issue.

In reviewing the proxy statements, C-III will seek to identify any potential conflict of interest with the company and determine, on a case-by-case basis, if the conflict is material. If material, C-III will determine, in light of all the facts then currently available, the manner by which to proceed. This may, or may not include abstention from voting such proxy. C-III will document its decision making process with respect to resolving material conflicts of interest.

C-III has adopted Proxy Voting Policies and Procedures whereby it exercises discretion to vote proxies for Client securities. A copy of these policies and procedures, as well as a record of all proxy decisions and any documentation maintained with respect to proxy votes, is available to each existing and prospective Client and investor by contacting Lawrence Block, C-III's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@c3cp.com.

ITEM 18: FINANCIAL INFORMATION

A. PREPAYMENT

C-III does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

B. FINANCIAL CONDITION DISCLOSURES

C-III is not aware of any financial condition or commitment that is reasonably likely to impair its ability to satisfy its contractual and fiduciary commitments to each of its Clients.

C. BANKRUPTCY

C-III has never been the subject of a bankruptcy proceeding.

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.

MISCELLANEOUS: ADDITIONAL INFORMATION

A. RELYING ADVISERS

C-III IM (the filing adviser) and each Relying Adviser (as described in Section 4.B. above) are together filing a single Form ADV in reliance on the position expressed by the SEC's Office of Investment Adviser Regulation, Division of Investment Management, in the 2012 SEC Letter.

B. OTHER ADVISERS RELYING ON THE REGISTRATION OF C-III IM

Each Affiliate (as described in Section 4.B. above) is relying on C-III IM's registration under the Advisers Act and is not registering itself, in accordance with the 2005 SEC Letter and the 2012 SEC Letter.

C. BUSINESS CONTINUITY PLAN

C-III has adopted a Business Continuity Plan and distributes a copy (or summary) of such plan to each existing and prospective Client and investor. C-III's Business Continuity Plan Summary explains that in the event of a significant business disruption, C-III shall, as quickly as practicable and to the extent reasonably feasible given the scope and severity of the significant business disruption: safeguard each Supervised Person and property; recover and resume business operations; make financial and operational assessments; protect C-III's books and records, including Client and investor information; and assist C-III's investors to transact business.

A copy of C-III's Business Continuity Plan Summary is available to each existing and prospective Client and investor by contacting Lawrence Block, C-III's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@c3cp.com.

D. PRIVACY POLICIES AND PROCEDURES

C-III has adopted Privacy Policy and Procedures and distributes a Privacy Policy Notice to each existing and prospective Client and investor that explains the manner in which C-III and its affiliates collect, utilize and maintain non-public personal information about investors who are individuals, as required under federal and other applicable law. C-III is committed to protecting an investor's privacy and maintaining the confidentiality and security of an investor's personal information and restricts access to personal account information to those Supervised Persons who need to know that information to provide C-III's products and services. C-III also maintains appropriate physical, electronic and procedural safeguards to guard each Client's non-public personal information.

A copy of C-III's Privacy Policy Notice is posted on C-III Parent's website at www.c3cp.com and is available to each existing and prospective Client and investor by contacting Lawrence Block, C-III's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@c3cp.com.