

Latitude Management Real Estate Investors, Inc. Part 2A of Form ADV

Brochure

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Item - 1 - Cover Page

This brochure provides information about the qualifications and business practices of Latitude Management Real Estate Investors, Inc. (“LMREI”), IARD/CRD Number 158422. If you have any questions about the contents of this brochure, please contact us at 310-234-2100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Item 2 - Material Changes

None.

Item 3 - Table of Contents

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Item 4 - Advisory Business

Latitude Management Real Estate Investors, Inc. (“LMREI”) was founded in September 2000 as Legg Mason Real Estate Investors, Inc. by Glenn A. Sonnenberg and Wallace O. Sellers Jr. LMREI was originally a wholly owned subsidiary of Legg Mason Inc. (“Legg Mason”). On March 31 of 2009 Legg Mason sold its interest in LMREI to a company wholly owned by Glenn A. Sonnenberg. Subsequently Glenn Sonnenberg sold interests in the company to the 3 remaining senior professionals. As of December 31, 2016, LMREI and its affiliates had over \$838 million in regulatory assets under management as defined in the instructions to form ADV section 1 part 5.

LMREI provides discretionary investment advisory services to three private mortgage real estate investment trusts (the “REITs”) Legg Mason Real Estate Capital II, Inc. (“LMREC II”), Latitude Management Real Estate Capital III, Inc. (“LMREC III”), and Latitude Management Real Estate Capital IV, Inc. (“LMREC IV”). The REITs primarily invest in commercial real estate related debt instruments collateralized by assets located in the U.S. with a substantial current income component. The Investment period for LMREC II expired prior to the formation of LMREC III (in 2012) and Investor capital is

being returned as assets pay off. LMREC III's investment period continues until January 2019, and any return of principal from its investments is and will be reinvested until such date. LMREC IV has an investment period that will begin April 1, 2017 and last through March 31, 2022. The Investor commitments of the two REITs that had capital calls prior to December 31, 2016 (LMREC II and LMREC III) account for more than \$500 million of the regulatory assets under management, and the commitments for LMREC IV account for an additional \$242 million. The currently accepted commitments for LMREC IV provide that LMREC IV will continue to accept investor commitments until first of: 1) the date on which the REIT has \$550 million in commitments, or 2) December 30, 2017.

The balance of LMREI'S assets under management consists of assets of private real estate investment partnerships, which are managed by LMREI and/or its wholly owned affiliates. Three of these partnerships; Latitude Multifamily Recovery Fund L.P. Chesapeake Real Estate Value Investors II, LP, and Latitude Apartment Investors have expired investment periods. These funds are no longer acquiring new investments, although they continue to own operate and manage existing equity investments in real estate. These funds jointly account for approximately \$20 million of LMREI's regulatory assets under management. As of yearend 2016 two additional funds continue to make new equity investments in real estate, Latitude Apartment Investors II, LLC and Latitude Hospitality Investors, LLC. Latitude Apartment Investors II invests in multifamily real estate assets and Latitude Hospitality investors invests in hotels and other hospitality related assets. Collectively all of the entities to which LMREI provides investment services are referred to as the "Funds". In addition, LMREI provides asset management services to non-discretionary real estate investment partnerships that typically invest in a single asset.

Each of the Funds is organized as a Delaware entity. The REIT's are organized as corporations and the real estate investment partnerships as limited liability companies or limited partnerships. Each fund has several wholly owned subsidiaries to facilitate financing transactions. The offering materials for the Funds contemplate that there may be parallel funds, which would be expected to invest in assets side-by-side on a pro-rata basis (based upon capital commitments) with other Funds. Generally, parallel funds would be established to accommodate specific tax, or term issues impacting certain types of investors. To date LMREI has not created a parallel fund as such term is used in the applicable offering material.

For ease of reference LMREI together with all its wholly owned subsidiaries engaged in the asset management business will be referred to collectively throughout this brochure as "LMREI".

With respect to the Funds, LMREI is responsible for identifying investment opportunities as well as facilitating the acquisition, monitoring, and disposition of each of the Fund's investments. LMREI provides investment advice to the Funds or "clients" (not to Fund investors). LMREI tailors its advisory services to the individual needs of each Fund, in accordance with the investment objectives, strategies and limitations (if any) described in each Fund's respective offering documents, charter, bylaws, operating agreement or limited partnership agreement as applicable.

Sidecars

LMREI may provide to investors that make a specified minimum capital commitment, or third parties the right to participate in a separate investment vehicle (“Sidecar”) for the purpose of participating on a levered or unlevered basis in certain co-investment opportunities with a particular Fund (generally because the asset would be too large for the fund to acquire without a co-investment vehicle). The minimum capital commitment amount required to participate in a Sidecar varies. Investors may make a commitment to the Sidecar, when made available, and the amount of which will be determined in LMREI’s discretion. To date the only Sidecar investment is Latitude Forest Durham, LP which co-invested as a minority partner with LMRF on the Forest Apartment transaction.

Item 5 - Fees and Compensation

Fees are determined and assessed in a manner specific to each Fund. For the specific fees charged by any specific Fund, please refer to the offering documents for that Fund. The fees paid by the Funds are typically not negotiable; however, LMREI may agree to rebate some portion of such fee to certain investors or investor classes. Certain fees may be deferred or waived from time to time at the discretion of LMREI.

1. Management Fees

Funds currently pay annual base management fees equal to a percentage of the total commitment amount during the investment period, or a portion thereof (if applicable) and net invested capital thereafter; depending on the size of an investor's commitment to a specific Fund, a portion of such base management fee may be rebated by LMREI directly to the Fund investor. The management fees are charged and paid quarterly in arrears or advance, as described in the particular Fund's offering materials.

Some Investors in LMREC III, and LMREC IV have agreed to a rebate that is variable. The amount of the base management fee rebate can be reduced by a percentage of distributions made by LMREC III, or LMREC IV; however, in no case will the total base management fee net of rebates exceed the Base Management fee prior to any rebate or offset.

In the case of LMREC IV, LMREI has structured the fund to include a rebate to the Fund if certain origination targets are not met during the initial 2 years of the investment period of such fund. This rebate is in addition to any investor specific rebate described in the prior paragraph.

2. Acquisition and Disposition Fees

Investors in certain Funds (although through the current date none of the REITs charge such fees) may pay Disposition Fees or Acquisition Fees equal to a stated percentage multiplied by the proceeds with respect to the sale, repayment, or redemption or other disposition or acquisition of an asset.

3. Incentive Compensation

LMREI may receive a portion of the distribution of income and proceeds as an incentive fee, which fee is deducted from a Fund's distributable proceeds. The incentive compensation is generally, dependent on Fund performance, a percentage of the amount of profits otherwise distributable to each Investor. Each Fund has established a distribution waterfall describing how distributions will be paid to the underlying investors and LMREI. Investors typically receive a preferred return on their investments prior to the distribution of any incentive compensation paid to LMREI. The preferred return is generally 7-9% per annum depending on market conditions at the time the investment was structured.

Depending on the tax structure of the investment Fund, LMREI may receive a performance fee prior to repayment in full of investor capital. If Fund performance subsequently declines then LMREI will generally be required to rebate an amount up to the full amount paid to LMREI in incentive compensation (a “clawback”).

The distribution waterfalls are further described in the governing documents for each Fund.

Performance-based compensation received by LMREI is structured to comply with Rule 205-3 under the Investment Advisers Act of 1940 (“Advisers Act”), to the extent applicable.

4. Liquidity

LMREI generally does not reinvest capital of a Fund in new assets (i.e. new originations/acquisitions) other than during the investment period for such Fund. However, distributable net proceeds may be reinvested in existing investments of the Funds after termination of the investment period, including investments in the Fund’s Financing subsidiaries (during such subsidiaries revolving investment period) and used for operating expenses of the Funds.

All of the Funds are organized as closed-end investment vehicles. There is no liquidity feature in any of the LMREI sponsored Funds, and no investor in the Funds may withdraw, or redeem interests or shares in the Funds prior to a mandatory pro rata share redemption made by the relevant Fund to all investors as a group.

5. Organizational and Offering Fees and Expenses

The Funds will bear all organizational and offering fees and expenses incurred in the formation of the Funds, up to a specified amount, as disclosed in the Funds’ offering documents. The Funds pay all third-party costs and expenses relating to the Fund business, including originating, evaluating, acquiring, owning, hedging, financing, operating, reviewing, managing and disposing of any Fund asset or potential Fund asset (and shall reimburse LMREI for any such costs and expenses paid or incurred by LMREI and its affiliated persons), including, without limitation, fees and expenses of legal counsel, accountants, appraisers, investment bankers and other third party consultants and advisors, premiums for insurance protecting the Fund, the General Partner, Investor Committee, and the Advisory Committee, travel expenses of LMREI and its affiliates and the members of the Advisory Board, any out-of-pocket expenses incurred by LMREI and its affiliates in connection with potential investments and any costs and expenses incurred in connection with any potential purchase of an asset by the Fund that is not purchased by the Fund.

Please see Item 12 for a description of LMREI’s trading practices.

6. Travel Expenses

The Funds will be responsible for incurring the cost of travel expenses related to Fund business. Such expenses include LMREI and its affiliated persons' first, business or economy class airfare for domestic or international travel.

7. Side Letters

LMREI will enter into side letters or other similar arrangements with certain Fund investors that has the effect of establishing or otherwise benefiting such investor in a manner more favorable than the rights and benefits described in the Fund(s) offering documents and agreements. Rights and benefits that are more favorable in any material respect may be afforded to an investor based upon its commitment level, and the same favorable rights and benefits may be extended, or not, to other investors in accordance with each respective Fund's offering materials. These rights and benefits may include most favored nation status, advisory committee designations, fee rebates, investment restrictions, reporting requirements, tax considerations, and other terms and conditions.

Item 6 - Performance Based Fees and Side-by-Side Management

Please see the section titled "Incentive Compensation" under Item 3 above for a complete description of the performance based fees allocable to the Funds' Asset Manager or General Partner as applicable. LMREI is entitled to receive a portion of the distribution of income and proceeds as incentive compensation as set forth in each Fund's governing documentation. Please see section 12 for a description of investment opportunity allocation.

Item 7 - Types of Clients

LMREI provides discretionary investment advisory services to the REITs which invest in debt interests of commercial real estate related assets. Investors in the REITs may include, but are not limited to, pension plans, endowments, corporate and business entities, foundations, trusts, and high net worth individuals. The Funds have minimum capital commitments for investors, as specified in the offering documents for each respective Fund, which are negotiable by LMREI. Each investor is required to meet certain suitability qualifications; examples may include being an "accredited investor" and "qualified client" or a "qualified purchaser" within the meaning set forth under the federal securities laws.

LMREI also provides investment advice to the discretionary real estate investment partnerships as well as asset management services. Investors in these partnerships may include pension plans, corporate and business entities, foundations, trusts and high net worth individuals. The Funds have minimum capital commitments for investors, as specified in the offering documents for each respective Fund, which are negotiable by LMREI. Each investor is required to meet certain suitability qualifications, examples may

include being an “accredited investor” and “qualified client” or a “qualified purchaser” within the meaning set forth under the federal securities laws.

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

Investment Analysis

LMREI identifies potential investment opportunities for the Funds through a variety of sources and bases a portion of its investment analysis on information obtained from working with industry professionals such as industry consultants, property management and leasing professionals, other investors, brokers, and other professionals within the real estate sector.

The screening process for potential investments involves several steps, which vary depending on the type of asset being proposed for origination/acquisition and the acquiring Fund. In all cases a written Investment Committee Memo is prepared describing the due diligence conducted on the proposed origination/acquisition, and this summary is provided to the Investment Committee. The Investment Committee members for each Investment Committee affiliated with LMREI as of March 1, 2017 are: Glenn A. Sonnenberg, Wallace O. Sellers Jr, Brett Mayer, and Craig Oram.

LMREI's Investment Committee or the REIT's Investment Committee as applicable will meet on a periodic basis, at least monthly, but also whenever requested with at least a 48 hour notice to review prospective investments, existing holdings, potential dispositions, material events regarding existing investments, and to assess real estate market activities. Members of the Investment Committee will vote, and majority approval of all members entitled to vote (i.e., exclusive of a member that is recused from participating), is required for the origination or acquisition of an asset for any of the Funds.

The relevant Investment Committee reviews and makes all the investment decisions for the Funds for which it is responsible. As part of this process, and as required, the Investment Committee reviews the allocation of limited investment opportunities among the Funds. It is unusual based on the life and investment cycle of the Funds for an investment to be appropriate for more than one Fund, except for allocations between LMREC III and LMREC IV during their overlapping investment periods (April 2017-January 2019). The allocations during the overlapping investment periods of LMREC III and LMREC IV are handled as described in the LMREC IV PPM (all investments are allocated to LMREC III so long as LMREC III has capacity for the investment in question at the time the application is processed). The partnerships are organized so that each Fund generally has exclusive rights to specific types of appropriate investments during its Commitment Period. If more than one Fund should have capacity for a single investment opportunity, the opportunity will be allocated in accordance with the procedures detailed in Item 12, Allocation of Investment Opportunities

Investment Strategies

LMREI provides advice to the REITS that invest in floating rate commercial real estate debt investments. The REITs generally invest in the debt of single purpose limited partnerships, and limited liability companies that were structured for the purpose of holding the underlying real estate assets which serve as collateral (i.e., the physical property) for the debt instrument in which the REIT invested. The REITS may also invest in debt participations, or in the case of LMREC II (but not subsequent funds LMREC III or LMREC IV) other pooled investment vehicles that specialize in real estate related debt investments and CDOs. The REITS have not made investments in, or loans to any of the real estate investment partnerships managed by LMREI, or investments in any loan pool or CDO for which such loans would serve as collateral. LMREI does not foresee any circumstance in which that would take place, and if it did take place it would require the approval of the advisory board of both the applicable REIT and the equity partnership, as described in cross transactions below. The REITS do not acquire real estate assets (as opposed to real estate related debt) except via foreclosure, deed in lieu of foreclosure or similar arrangement.

Separately LMREI provides advice to the equity real estate investment partnerships. These funds, through their various subsidiaries, own real estate, or real estate related assets, other than first mortgages. These funds invest in real estate throughout the United States but do not seek to acquire any property on which one of the managed REITs has made a loan which would not be retired in full and pursuant to its original terms prior to the acquisition of the property.

Risk of Loss

Investors should also refer to the risks described in the Private Placement Memorandum for each respective Fund.

Investments in the Funds involve a significant degree of risk and are illiquid. Similarly, the investments made by the Funds involve significant risks and are also illiquid. A Fund investor should not invest in a Fund unless the investor is able to withstand a total loss of its investment in the Fund. There is no assurance that any Fund will achieve its investment objective. Investing in securities, interests in real estate and other illiquid investments involves a risk of loss that the Funds and Fund investors should be prepared to bear.

LMREI will cause the Funds to use leverage from time to time, in the form of debt financing, including in the case of the REITs issuing securitized debt financing such as Collateralized Loan Obligations. The proceeds of the leverage will be used to originate, acquire, and refinance investments. Each Fund has established a limit regarding the amount of leverage that can be used as described in the offering documents for such Fund. Debt service requirements may deplete or restrict a Fund's otherwise available cash flows. As a result of the use of leverage, relatively small changes in the overall value of Fund investments may have a magnified impact on the equity value of the Fund. If a particular Fund investment was unable to generate sufficient cash flow to meet interest and

principal payments on the indebtedness incurred by the Fund, or to refinance such debt at maturity, the value of such investment or portfolio, or the Fund itself could be significantly reduced or even eliminated. In addition, the terms of the debt financing may restrict the amount of funds available for distribution to Fund investors.

While, except for a de minimis portion, all the financial assets of the REITs are invested in floating rate obligations, these entities may still be exposed to interest rate risk. Among other risks derived from movements in interest rates, the value of the underlying collateral and associated cash flows may not increase, or may not increase at the same rate as the loan index rate on the loan in which the REIT invested. As a result the REIT may suffer increased credit losses.

The real estate investment partnerships frequently borrow on a fixed rate basis, and thus are directly exposed to interest rate risk. Generally the debt incurred by these partnerships must be defeased if it is retired prior to its nominal term. In an attempt to avoid liquidity risk it is highly likely that the real estate investment partnership will in fact borrow for a term that is somewhat greater than the anticipated hold period. While such strategy may decrease to a limited extent the liquidity risk it will expose the associated Fund to interest rate risk. The cost of defeasance can rise dramatically in a falling rate environment, and may make an asset disposition prohibitive even if the asset could have been sold at a profit absent such defeasance cost.

LMREI may participate in interest rate hedging strategies on behalf of the Funds. The Funds may enter into forward contracts, future contracts, swaps, caps, and collars. During the Period from March 2008 through March 2017 none of the Funds managed by LMREI have participated in any interest rate hedging strategy other than: 1) the purchase of interest rate caps on loans originated by the REITs, and 2) short term rate locks on fixed rate financing issued by the Real Estate Investment Partnerships. However there can be no assurance that in a future period such Funds would not engage in a broader range of interest rate hedging strategies to the extent permitted by their governing documents. Investing in these instruments can increase the risk of loss to the Funds. Generally, only a small amount of the full value of these instruments (the “notional amount”) is necessary to enter into these transactions. As such, a change in the value of the instrument will magnify the amount of gains and losses experienced. Such hedging arrangements may also cause the Funds to be exposed to the creditworthiness of the selected hedging provider(s) from time to time. If the hedging arrangements are terminated at any time in accordance with their terms, the Fund may be liable to make a payment to or receive a payment from the hedging provider in connection with such termination reflecting the market value of the transactions comprising such hedging arrangements. If a Fund is required to make such a payment, it may be required to liquidate investments to do so. LMREI may also invest the Funds’ assets in money market funds and/or other liquid, short term securities for cash management purposes.

While LMREI intends to originate, or acquire, and manage diversified portfolios of commercial real estate debt investments on behalf of the REITs, it may not be able to achieve that goal. While diversification is an objective of the REITs and some of the Real Estate Investment Partnerships, there is no assurance as to the degree of diversification

that will actually be achieved in these Funds' investments, either by geographic region, concentration, or asset type. Any Fund may end up participating in a limited number of investments and as a consequence, the aggregate return of a Fund may be materially and adversely affected by the unfavorable performance of a single investment.

Item 9 - Disciplinary Information

LMREI and its employees have not been involved in any legal or disciplinary events in the past 10 years that LMREI believes would be material to a client's evaluation of LMREI's advisory business or the integrity of its management.

Item 10 - Other Financial Industry Activities and Affiliations

See the section titled "Advisory Business" above for a description of LMREI's role in providing advisory services to the Funds.

Employees of LMREI may have family members and/or friends that are employed with, or are otherwise affiliated with, entities that provide services or engage in business transactions with LMREI and/or the Funds. Examples of such relationships may include entities that are the Fund's investors, borrowers, joint venture partners, operating partners, real estate or securities brokers, lenders, and/or tenants in buildings owned by the Funds. Employees are required to report any such relationships to the Compliance Department, which monitors such relationships and any related conflicts.

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

Code of Ethics

LMREI has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the Advisers Act. The Code of Ethics is documented in appendix B-1 to the Compliance Manual

This Rule requires LMREI to adopt a Code of Ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of our employees. Our Code of Ethics contains policies and procedures that require the following: (i) pre-clearance before purchasing real estate related securities, or the purchase of any securities in initial public offerings of real estate companies or private placements of real estate companies or any companies with which LMREI does business or is otherwise professionally involved; (ii) prompt internal reporting of any violations of the Code of Ethics.

LMREI will provide a copy of our Code of Ethics to clients or prospective clients, upon request. Please contact Wallace O. Sellers, Jr. by telephone at (310) 234-2102 should you have any questions concerning our Code of Ethics or wish to obtain a copy.

Personal Investments

LMREI's senior management, including Glenn A. Sonnenberg, and Wallace O. Sellers Jr. have made personal investments in the Funds alongside the investors. As previously described, LMREI receives incentive compensation from the Funds.

Employees of LMREI may make personal investments in any of the Funds managed by LMREI or any other real estate related securities (other than securities, if any, issued by any of the Funds) subject to the restrictions of LMREI's Code of Ethics, as described above.

Item 12 - Brokerage Practices

Client Referrals

Private Funds managed by LMREI, and the REITs managed by LMREI may engage placement agents from time to time. However, such placement agents do not effect transactions in real estate or publicly traded securities on behalf of the Funds.

Best Execution

When selecting a real estate broker, in cases where a Fund may hold a real estate asset, LMREI will consider numerous factors and criteria with the overall objective of selecting a broker who will efficiently and effectively market the asset for sale and maximize returns for the Funds. Examples of the criteria used include the following: the broker was helpful or instrumental during the loan origination and/or consulting process during the asset management phase; the broker represented the borrower during the purchase of the asset and is already familiar with the property; access to decision makers for a likely capital source; ability to run the bidding process to maximize the return on investment to the Fund; knowledge and experience with the local market, type of asset and/or structure; complexity and size of the transaction; past performance in representing LMREI or others on similar deals; presence of a strong local investment sales team assigned to the engagement; predisposition to use a particular broker; the broker's efficiency and professionalism in the preparation and distribution of marketing materials relevant to the engagement; overall allocation of business to a variety of qualified brokers that can meet LMREI's needs; and the fee structure for the engagement.

Fund transactions in publicly traded commercial real estate securities are anticipated to be rare since it is not the objective of the Funds to engage in these transactions. However, in the unusual circumstances when LMREI is a participant in such securities transaction, LMREI will select broker-dealers based on its fiduciary duty to seek best execution. Numerous factors and criteria will be used when evaluating brokers. Examples of the

criteria used include the following: overall price; availability and liquidity of a security (e.g. for a fixed income security, the use of a broker-dealer that makes a market in a particular issuer); trading expertise; reliability; maintaining confidentiality; and reputation.

LMREI is responsible for the placement of Fund transactions and the negotiation of any commissions paid on such transactions. Securities, if purchased, are normally purchased from an underwriter or market maker for the securities. Purchases of securities through brokers involve a commission to the broker. Purchases of securities from dealers serving as market makers include the spread between the bid and the asked price. The Funds are responsible for paying any commissions or other fees regarding any security transactions effected on behalf of the respective Fund.

When participating in interest rate hedging transactions, LMREI and the Funds use a third party vendor (from January 1, 2005 through the current date March 15, 2017 this entity has been Chatham Financial) to provide quotes from multiple counterparties. Fund transactions are executed with the broker-dealer, bank, or other counterparty with the intent of seeking “best execution” for the Funds. Brokers, banks, or other counterparties are generally selected on the basis of price, credit rating and transaction expertise.

The Funds are responsible for paying all expenses associated with executing transactions in securities and hedging transactions. While the use of a third party vendor to obtain quotes and negotiate transactions will increase the cost of the transaction in excess of the amount that the Funds might be able to achieve directly, these services along with other account related or accounting assistance services are considered by LMREI to be a valuable service for the Funds.

Research Reports

LMREI receives real estate market data research from real estate brokers. LMREI may also use the services of those real estate brokers to sell real estate investments for the Funds. LMREI and/or the General Partners do not have any formal or informal arrangements to compensate the brokers for the research that is provided. LMREI and/or the General Partners may also receive real estate-related research and market data from third party service providers. Some examples of such third party research providers include, but are not limited to, Real Estate Investment Services (REIS), Real Capital Analytics and Co-Star. The Funds will bear the expense for the research obtained from such third parties and these payments will likely be made in hard dollars.

Trade Aggregation

The Funds rarely invest in any publicly traded securities. If a Fund were to engage in a transaction in a publicly traded security, due to exclusivity provisions and the fact that LMREI typically only invests the assets of a single Fund in any one investment type during its respective Commitment Period, it generally would not be practicable to aggregate transactions with another Fund.

Allocation of Investment Opportunities

LMREI recognizes its fiduciary duty to act in the best interests of each of the Funds. In unusual instances when LMREI may be in a position to allocate investment opportunities to more than one Fund at a time, it will do so on the basis of an established policy that is communicated to all investors in the funds involved. At this time, March 2017, LMREI anticipates that the only allocation of investment opportunities will be between LMREC III and LMREC IV. LMREC III and LMREC IV will be investing in similar loan products from April 2017 through January 2019 (the end of the LMREC III investment period). The methodology that LMREI has adopted to allocate investment opportunities is that all opportunities will be allocated to LMREC III (as the older fund), to the extent that LMREC III has sufficient capacity (both funding and diversification requirements) to originate the loan at the time the loan application is submitted. If LMREC III does not have capacity to originate the entire loan, it will be offered to LMREC IV. In no circumstances will a single loan be allocated between the two funds (no taxable mortgage pool). In the future if there was to be an allocation of investment opportunities between the equity real estate investment partnerships it would be done on a shared investment basis to ensure that each Fund is treated in a fair and equitable manner. Allocations between equity real estate investment partnerships if applicable will typically be 51/49 but as a result of potential limitations on product type or deal size continue to be subject to the sole discretion of LMREI taking into account the Funds' investment limitations, and/or the availability of capital, any applicable legal, tax, and regulatory considerations.

Trade Errors

In the event that the Funds incur a trade error solely as a result of LMREI's gross negligence, willful misconduct, or fraud, such errors are to be corrected by LMREI as soon as practicable and in a manner such that the Fund incurs no loss. Trade errors that result, other than by breach of care stated above, will be borne by the relevant Fund. To the extent that any gains arise from trading errors and as such are received by the Fund, then such gains will be retained by the relevant Fund.

Cross Transactions

LMREI generally does not permit the Funds to engage in any cross transactions. In the event that LMREI were to do so, LMREI will first consider and determine that the transaction is in the best interests of both participating Funds and consistent with disclosed policies in each Fund's constituent documents. LMREI will then obtain consent from the Advisory Board of both Funds, to the extent deemed necessary or appropriate.

Transactions with Limited Partners and Affiliates

The Funds have in the past, and may in the future, enter into transactions with a limited partner or its affiliates (whether as a buyer, seller, lessor, lessee, manager, broker, agent, lender, trustee, provider of services, or otherwise). Neither the Fund nor any partner shall have, as a consequence of this relationship, any rights in or to any income or profits derived from such transaction or relationship.

Advisory Board

Each fund also has an Advisory Board. The Advisory Board is set up to review; (i) potential conflicts of interest between LMREI and any Fund or as otherwise required by the documents governing each Fund; (ii) the waiver of a Fund's investment limitations; (iv) waiver of a Fund's leverage limitations; (v) approval of an extension of the term of the Fund; (vi) approval of changes to the Fund's accounting policies; and (vii) approval of changes to the valuation policy of the Fund. No voting member of the Advisory Board is or may be affiliated with LMREI.

Item 13 - Review of Accounts

Review of Fund Portfolios

The accounts managed by LMREI are the Funds.

LMREI's Origination Group meets on a periodic basis to discuss new investment opportunities that should be presented to the relevant Investment Committee. The Investment Committee meets whenever needed to review and approve of new investment opportunities.

The investment positions and assets within the Funds' portfolios are monitored and reviewed by personnel of LMREI's Asset Management group on a monthly basis. Each calendar quarter, a quarterly asset review meeting takes place, and a quarterly asset report is produced in which each of the Fund's respective investments is presented to LMREI's senior management, and investors in the relevant Fund for review of credit conditions, performance updates, and business plan.

Fund Reporting

LMREI provides investors with quarterly Fund reports as described in the prior paragraph, in either electronic or written format generally within 90 days after the end of each calendar quarter. The reports contain the following information: (i) a schedule and summary description of each Fund investment; (ii) a description of the performance of each asset; (iii) unaudited financial statements including a balance sheet, income statement, and, (iv) a transmittal letter describing performance highlights. Investors also have on-line access to this information through the REALERA System. Investors periodically receive additional reporting including a statement to show cash flows from their investment in the fund and LMREI distributes special reports to investors, upon specific request. The special reporting varies by the format in which an investor would prefer to receive our information (e.g., using a specific template or questionnaire).

Investors in the Funds will also receive copies of the annual audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) approximately 120 days following fiscal year end. These statements include the following

information; (i) auditors opinion; (ii) balance sheet; (iii) statement of income or loss; (iv) statement of partners' capital (or equity); (v) statement of cash flows; and (vi) notes to the financial statements.

Investors in single asset partnerships where LMREI does not act as an Investment Advisor and does not have or exercise investment discretion, will typically not receive such audit reports unless the Investors elect to instruct the partnership to prepare an audit at the expense of the partnership, see item 16 discretion.

Item 14 - Client Referrals and Other Compensation

Additional Compensation

Employees of LMREI may obtain discounted rates while staying at properties (i.e., hotels or resorts) financed or owned by the Funds, while traveling on personal time. Employees may accept the "Friends and Family" rates offered by the properties, subject to availability. Employees are prohibited from requesting and/or accepting accommodations by Fund-financed or owned properties that are free of charge to the employee, while traveling on personal time.

Client Referrals

The equity real estate investment partnerships managed by LMREI, and the REITs managed by LMREI may engage placement agents from time to time to introduce prospective investors to the Funds. The fees and expenses of any third-party placement agents and/or solicitors will be paid by the Fund in question and will generally be deducted (as described in the relevant offering memorandum) from management fees otherwise payable to LMREI.

Business Entertainment

LMREI's Sponsorship of and Participation in Events

In order to provide the quality of services that the Funds and investors expect, it is necessary for LMREI to establish, maintain and enhance relationships with Fund investors and prospective Fund investors, as well as various professionals in the real estate investment and management business, such as attorneys, consultants, investment brokers, investment bankers, leasing agents and tenant representatives, lenders, developers, equity fund sponsors, venture and operating partners and other service providers and investment professionals (together, the "Real Estate Industry"). Establishing meaningful and long-term relationships in these and other areas within the Real Estate Industry are critical to LMREI in identifying diverse strategies and sourcing investment opportunities for the Funds, as well as effectively underwriting, financing, operating, managing and disposing of Fund assets. LMREI and the Real Estate Industry value important and long-standing relationships, and as such, LMREI and its employees may invite those within, and maybe invited to participate in activities sponsored by, the

Real Estate Industry that could be considered lavish entertainment, such as sporting events, concerts, golf and other outdoor outings and other recreational activities (collectively, “Events”). LMREI recognizes that many in the Real Estate Industry similarly put efforts forth to establish, maintain and enhance their relationships with organizations competitive to LMREI.

The meals, travel, and accommodations for many, but not all, Events may also be paid by LMREI or such Real Estate Industry third-parties including accommodations at upscale locations. In addition, from time to time properties owned by the Funds may also sponsor Events, in which employees of LMREI may attend in an effort to generate marketing opportunities for renting / leasing available space in such properties or otherwise. The primary benefits LMREI and the Funds receive from LMREI’s sponsorship and participation in these Events is to originate and further strengthen our relationships within the Real Estate Industry. LMREI believes that working to have such relationships is important towards ensuring that LMREI is provided with the opportunity to capitalize upon active sources of deal flow and investment opportunities, as well as to receive critical and reliable services and information. While LMREI believes employee sponsorship and participation in these Events is beneficial to the Funds for the reasons described above, LMREI’s subsequent selection and retention of such Real Estate Industry service providers could be viewed as a form of reimbursement for attending such Events. LMREI recognizes and acknowledges our fiduciary duty to the Funds. As such, no such Events or activities sponsored or received by LMREI are permitted to influence our due diligence process in the originating, acquiring, underwriting, financing, managing, leasing, and selling of real estate investments or fulfilling our fiduciary duty to the Funds. LMREI requires its employees to report their planned sponsorship of and participation in Events to its President or Chief Compliance Officer (“CCO”) for review. They monitor such reporting and alert members of the Investment Committee to any concerns related to the frequency, lavishness or benefit of the sponsorship of or participation in such Events. At such time, the Investment Committee will determine on a case-by-case basis whether an employee’s sponsorship of or participation in an Event is warranted and the expenses may be paid by third parties, or warranted but the expenses must be paid by LMREI or the participating Employee, or the sponsorship of or participation in the Event is not warranted.

Property Incentive Programs

LMREI and/or entities hired by LMREI (such as property management or leasing service providers) will periodically sponsor incentive programs for unaffiliated third parties, primarily for real estate brokers and leasing agents. The programs are designed to incentivize the brokers and/or leasing agents to generate interest in obtaining tenants to occupy vacant space in properties owned by the Funds. The incentive programs are designed to benefit the Funds by securing leases as quickly as possible to generate revenue at the properties owned by the Funds. The incentive programs may include items such as meals, gifts, gift cards, vacation accommodations, and other items. The incentive programs are paid for as part of the marketing budget for each property. Since these expenses are paid by the individual property, the Funds bear the cost of these expenses.

Item 15 - Custody

Whether LMREI serves in the case of the REITs as a Fund's Asset Manager with the obligation to recommend and supply personnel to staff the REIT's Board of Directors and executive officers or whether it serves as a Fund's general partner or managing member in all cases it is considered as a result of these roles to have custody of client assets. The REIT's and discretionary real estate investment funds are audited annually and the audited financial statements, which are prepared in accordance with generally accepted accounting principles, are distributed to the Funds within 120 days of the Funds' fiscal year end. Fund investors should carefully review the Funds' audited financial statements.

Item 16 - Investment Discretion

LMREI has investment discretion over the REITs and the discretionary equity real estate investment partnerships in accordance with each Fund's respective offering documents and/or bylaws, charter or limited partnership agreement all as applicable. Each Fund's offering documents generally set forth certain limitations with respect to the management of the Fund and the activities of LMREI, among others. Fund investors may enter into side letter agreements with LMREI, as described under Item 5 above. These agreements may have the effect of limiting certain of LMREI's activities.

LMREI provides asset management advice to certain other funds, generally referred to herein as the non- discretionary real estate investment partnerships where a single third party institution has over 50% of the invested capital (the "Primary Investor"). With respect to such funds, while LMREI may have custody of certain fund assets it does not have investment discretion, nor is it acting as an investment advisor with respect to such funds, such funds are generally unaudited and LMREI is supervised in its role as asset manager by the primary investor.

Item 17 - Voting Client Securities

Currently, LMREI does not have proxy voting authority under any of its sponsored Fund investment agreements. If in the future the practices mentioned become applicable to LMREI's business practices, and in accordance with its fiduciary duty to the Funds and Rule 206(4)-6 of the Investment Advisers Act, LMREI will adopt and implement written policies and procedures governing the voting of Fund portfolio securities.

Item 18 - Financial Information

LMREI is not aware of any financial condition that it believes is expected to affect its ability to meet contractual commitments to the Funds.