

# 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](http://www.adviserinfo.sec.gov).**

## Item 2 - Material Changes

None. This Part 2a of Form ADV “Brochure” is an initial filing.

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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 Latitude Management Real Estate Holdings LLC an entity wholly owned by management team members. As of December 31, 2011 LMREI and its affiliates’ had approximately \$1.3 billion of GAAP book value assets under management, the vast majority on a discretionary basis.

LMREI provides discretionary investment advisory services to two private mortgage real estate investment trusts (the managed “REITs”) Legg Mason Real Estate Capital, Inc. (“LMREC”) and Legg Mason Real Estate Capital II, Inc. (“LMREC II”). The managed REIT’s primarily invest in commercial real estate related debt instruments collateralized by assets located in the U.S. with a substantial current income component. The assets of these two managed REITs account for over 90% of the GAAP book value of LMREI’s assets under management.

The balance of LMREI'S assets under management consists of the assets of private real estate investment partnerships (the "Private Real Estate Partnerships"). The Private Real Estate Partnerships are managed by LMREI and/or its wholly owned affiliates. The Private Real Estate Partnerships can in turn be split into two distinct groups, discretionary and non-discretionary. The three Private Real Estate Partnerships for which LMREI has discretionary investment authority are; Chesapeake Real Estate Value Investors, L.P. and Chesapeake Real Estate Value Investors II, LP, and Latitude Multifamily Recovery Fund. The Balance of the Private Real Estate Partnerships each has a single asset investment, which was identified prior to formation of the partnership. LMREI's role in these partnerships is to direct the operations of third party property managers to engage accountants and lawyers as necessary and to make recommendations if appropriate regarding liquidation. As of December 31, 2011 these non-discretionary partnerships included LMREI Texas HP, LLC, FCH preferred equity owner, LLC and MW Hotels partners, LLC. Collectively the Private Real Estate Partnerships and Managed REITs are referred to as the "Funds".

Each of the Funds is organized as a Delaware entity. The managed REIT's are organized as corporations and the Private Real Estate 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 generally 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.

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

With respect to all of the discretionary investment funds LMREI is responsible for identifying investment opportunities as well as facilitating the acquisitions, 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 the right to participate in a separate pooled investment vehicle ("Sidecar") for the purpose of participating on a levered or unlevered basis in certain co-investment opportunities with a particular Fund. 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.

## **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 any such fee to certain investors or investor classes as described in the appropriate offering memorandum. Certain fees may be deferred or waived from time to time at the discretion of LMREI.

### *1. Base Management Fees*

All of the Managed REITs and the Discretionary Private Real Estate Partnerships other than Latitude Multifamily Recovery Fund (“LMRF”) currently pay annual management fees equal to a percentage of the total commitment amount during the investment period (if applicable) and net invested capital thereafter; depending on the size of an investor’s commitment to a specific Fund, a portion of the fee may be rebated by LMREI directly to the Fund investor. The management fees are deducted and charged quarterly in arrears, or advance as described in the particular Fund’s offering materials. LMRF pays 1.5% on invested capital, as defined in its offering materials, from inception through return of capital.

Fees on the Non-discretionary Private Real Estate Partnerships vary based on the tasks assigned to LMREI. The fee arrangements are documented in the respective offering materials.

### *2. Acquisition and Disposition Fees*

Investors in LMRF pay an acquisition fee equal to 1% of the target assets gross purchase price. No other funds as of Dec 31, 2011 charge acquisition fees.

Certain Private Real Estate Partnerships including LMRF may pay Disposition Fees equal to a stated percentage multiplied by the proceeds with respect to the sale, refinancing or other disposition of an asset.

### *3. Incentive Compensation*

LMREI may receive an incentive fee, which fee would be deducted from a Fund’s distributable proceeds; certain on the non-discretionary Private Real Estate Partnerships do not pay incentive fees. The incentive fee compensation is applicable is dependent on Fund performance, and is typically structured as a percentage of the amount of profits otherwise disburseable to each Investor. Each Fund that has agreed to pay an Incentive Fee 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 8-9% 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 rebate a portion of such incentive fee up to the full amount paid to LMREI (a “clawback”) so that the share of cash flow received by LMREI is equal to its percentage interest over the agreed investor preferred return.

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 commitment period for such Fund. However, otherwise distributable net proceeds may be reinvested in existing investments of the Funds, including a Fund’s CDO subsidiary(ies) (during such entity’s revolving investment period) and/or used for operating expenses of the Funds rather than being distributed to investors.

The Funds are organized as closed-end investment vehicles. An investor in the Funds may not withdraw, or redeem interests or shares in the Funds.

#### *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 travel and for international destinations or other longer duration flights, business or first class airfare.

## *7. Side Letters*

LMREI will periodically enter into a side letter or other similar arrangement with Fund investors that have 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 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, investment restrictions, reporting requirements, tax considerations, fee rebates, and limited return guarantees as well as 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.

## **Item 7 - Types of Clients**

LMREI provides discretionary investment advisory services to the Managed REITs which invest in debt interests of commercial real estate related assets. Investors in the Managed 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, such as being an "accredited investor" or a "qualified purchaser" within the meaning set forth under the federal securities laws.

LMREI also provides discretionary investment advice to the discretionary Private Real Estate Partnerships, and asset management and sourcing advice to the non-discretionary Private Real Estate Partnerships. Investors in these partnerships may include pension plans, corporate and business entities, foundations, trusts and high net

worth individuals. Each Fund has minimum capital commitments for investors, as specified in the offering documents for such Fund, which commitment is negotiable by LMREI. Each investor is required to meet certain suitability qualifications, such as being an “accredited investor” or “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 are: Glenn A. Sonnenberg, Wallace O. Sellers Jr., Brett Mayer, and Craig Oram.

LMREI's Investment Committee or the managed REIT's Committee as applicable will meet on a periodic basis, at least monthly, but also whenever requested with at least a 72 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 of the investment decisions for the Funds. As part of this process, and as required, LMREI's 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 allocation to be appropriate for more than one Fund. This is because each Fund generally has exclusive rights to a specific investment style or type of investment during its respective Commitment Period. The allocation decisions may also be based on investment considerations regarding diversification, size of the position, and available committed capital. As a result if asset size, or other concentration issues should result in a determination that a particular investment needs to be allocated between two funds, the Investment Committee will generally split the investment opportunity approximately equally (51/49) between those funds eligible to invest. See Item 12, Brokerage

## Practices, Allocation of Investment Opportunities.

### Investment Strategies

LMREI provides advice to the Managed REITS that invest in floating rate commercial real estate debt investments. The Managed 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 for the debt instrument (i.e., physical property). The Managed REITS may also invest in debt participations, limited partnerships or other pooled investment vehicles that specialize in real estate related debt investments and CDOs. The Managed REITS have not made investments in, or loans to any of the Private Real Estate Partnerships managed by LMREI, or investments in any loan pool or CDO for which such Private Real Estate Partnership loans would serve as collateral. LMREI does not foresee any circumstance in which such cross pool investment would take place, and if it did take place it would require the approval of the advisory board of both Funds, as described in cross transactions below. The Managed 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. Only one Managed REIT has an investment period that allows additional acquisitions at any one time.

Separately LMREI provides advice to the Private Real Estate Partnerships. These funds own through their various subsidiaries 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 will 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 certain 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, real estate and other 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 to originate, acquire, and refinance investments. Each Fund has established a limit with regard to 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 cash flows. Further, 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 amount or 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 of the assets of the Managed REITs are invested in floating rate obligations, these entities may still be exposed to interest rate risk. Among other risks, 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 Managed REIT invested. As a result the Managed REIT may suffer increased credit losses.

The Private Real Estate Partnerships generally borrow on a fixed rate basis, and as a result 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 Private Real Estate Partnerships 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 faced by the Private Real Estate Partnership it exposes the associated Fund to additional 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. Investing in these instruments can increase the risk to 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 Managed REITs, it may not be able to achieve that goal. While diversification is an objective of the Managed 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 the 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.

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. While LMREI has determined that our employees are not in position of any material non public information with respect to any company which has publicly traded debt or equity as a result of his or her position at LMREI or access that such position grants them elsewhere, we nonetheless have a code of conduct that requires employees to comply with federal securities laws. Among other things our Code of Ethics contains policies and procedures that require the following: (i) pre-clearance before purchasing real estate related securities, or any securities in initial public offerings or private placements of real estate companies or any companies with which LMREI does business or is otherwise professionally involved; and (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 real estate related securities subject to the restrictions of LMREI's Code of Ethics, as described above.

## **Item 12 - Brokerage Practices**

### Client Referrals

LMREI and the Funds may engage various placement agents from time to time. As of December 31, 2011 Wren Capital has been engaged as a placement agent with respect to placement of equity interests in Latitude Management Real Estate Capital III, Inc. 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. As of Dec 31 2011 LMREI had not acquired on its own behalf or for any of its Fund publicly

traded commercial real estate securities. However, the offering materials for the private REITs contemplate that in certain unanticipated tax circumstances such acquisition might be necessary or desirable. In such unusual circumstances, LMREI will select broker-dealers based on its fiduciary duty to seek best execution. LMREI has acquired on behalf of the Funds privately placed real estate securities, and has done so through brokers acting as market makers. In selecting any broker LMREI will consider: 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 are normally purchased through dealers serving as market makers or may be purchased directly from the issuer or from an underwriter or market maker for the securities. 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 with regard to 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 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 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, 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 transacts in a publicly traded security, due to exclusivity provisions and the fact that LMREI only

invests the assets of a Fund during its respective Commitment Period, it generally would not be practicable to aggregate such transaction with another Fund.

### Allocation of Investment Opportunities

LMREI recognizes its fiduciary duty to act in the best interests 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 a shared investment basis to ensure that each Fund is treated in a fair and equitable manner. These allocations will continue to be subject to the sole discretion of LMREI and the Funds' investment limitations, availability of capital and/or 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 cause or permit the Funds to engage in any cross transactions. In the unlikely event that LMREI were to recommend such a transaction 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 Shareholders, Limited Partners and Affiliates

The Funds have in the past, and may in the future, enter into transactions with a Shareholder, 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 has an Advisory Board. The Advisory Board is set up to review potential conflicts of interest between LMREI and the Funds. Such conflicts will be brought to the Advisory Board by LMREI or as otherwise required by the documents governing each Fund. In addition the Advisory Board will vote on any of the following waivers or changes to the governing documentation of the respective 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 weekly basis. Each calendar quarter, a quarterly asset review meeting takes place by which each of the Fund's respective investments is presented to LMREI's senior management for review of credit conditions, performance updates, valuation, and business plan.

### Fund Reporting

LMREI provides investors with quarterly Fund reports, 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 capital account statement to show cash flows from their investment in the fund and LMREI prepares customized reports for various major investors, upon specific request. The customized reporting can be in any format specified by the investor, (e.g., using a specific template or questionnaire).

With respect to the Managed REITs and certain of the pooled real estate investment partnerships investors will also receive copies of the annual audited financial statements approximately 180 days following Calendar year end. These statements include the following information: (i) auditors opinion; (ii) balance sheet; (iii) statement of income or loss; (iv) statement of cash flows; and (v) notes to the financial statements.

Investors in single asset partnerships with which the manger does not 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

LMREI may periodically engage third party placement agents and/or solicitors to introduce prospective investors for the Funds. The fees and expenses of any third-party placement agents and/or solicitors will be paid by LMREI. As of December 31, 2011 Wren Capital has been engaged as a placement agent with respect to placement of equity interests in Latitude Management Real Estate Capital III, Inc.

### 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 is critical to LMREI in helping it to identify diverse strategies and sourcing investment opportunities for the Funds, as well as effectively underwriting, financing, operating, managing and disposing of Fund assets. Investors in 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 (although through December 31, 2011 no such events have been attended by any LMREI employees). The primary benefit LMREI and the Funds might receive from LMREI's sponsorship and participation in these Events is to strengthen our relationships within the Real Estate Industry. LMREI believes that working to strengthen such relationships is important towards ensuring that LMREI is provided with the opportunity to capitalize upon potential 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 the opportunity to attend 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 Chief Compliance Officer ("CCO") for review. The CCO monitors such reporting and alerts 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 Managed REITs as a Fund's Asset Manager with the obligation to recommend and supply personnel to staff the Managed 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 Managed REIT's and the majority of the discretionary real estate in 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' investors generally within 180 days of the Calendar year end. Fund investors should carefully review the Funds' audited financial statements. In certain situations the Funds have hired a third party to maintain custody of certain assets of the Fund, including their interest in special purpose wholly owned subsidiaries created for the purpose of owning real estate.

## **Item 16 - Investment Discretion**

LMREI has investment discretion over the Managed REITs and the discretionary 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 manages certain other funds, generally referred to herein as the non-discretionary Private Real Estate Partnerships. With respect to such funds while LMREI provides certain management services to such funds, engaging attorneys and accountants, and it has a role in recommending strategies to the Fund investors it does not have investment discretion.

## **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.