

Item 1 – Cover Page



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March 31, 2017

This Brochure provides information about the qualifications and business practices of PCI Management, LLC (“**PCIM**” or the “**Adviser**”), a wholly owned subsidiary of Pembroke Capital Management LLC (“**PCM**”). PCM also owns Pembroke Management Holdings, LLC (“**PMH**”) and PCI III Management, LLC (“**PCIM III**”). PCM, PMH, PCIM and PCIM III (collectively referred to as “**Pembrook**”) are registered investment advisers with the Securities and Exchange Commission (the “**SEC**”), and PMH, PCIM and PCIM III are relying advisers that file with PCM.

**If you have questions about the content of this Brochure, please contact Robert Hellman at (212) 906-8690 or [rhellman@pembrookgroup.com](mailto:rhellman@pembrookgroup.com). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or any state securities authority. Additional information about Pembrook is also available on the SEC’s website at [www.adivserinfo.sec.gov](http://www.adivserinfo.sec.gov).**

## **Item 2 – Material Changes**

This brochure is being updated as part of PCIM's Form ADV Annual Updating Amendment for the fiscal year ending December 31, 2016. This brochure contains the following material changes since the previous Form ADV Annual Updating Amendment filed March 29, 2016:

- PMH, PCIM, and PCIM III are designated as Relying Advisers.
- Language has been updated to reflect the current Pembroke ownership structure.

### **Item 3 – Table of Contents**

<b>Item 1 – Cover Page</b>	<b>1</b>
<b>Item 2 – Material Changes</b>	<b>2</b>
<b>Item 4 – Advisory Business</b>	<b>4</b>
<b>Item 5 – Fees and Compensation</b>	<b>5</b>
<b>Item 6 – Performance Based Fees and Side-By-Side Management</b>	<b>7</b>
<b>Item 7 – Types of Clients</b>	<b>8</b>
<b>Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss</b>	<b>9</b>
<b>Item 9 – Disciplinary Information</b>	<b>17</b>
<b>Item 10 – Other Financial Industry Activities and Affiliations</b>	<b>18</b>
<b>Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b>	<b>20</b>
<b>Item 12 – Brokerage Practices</b>	<b>21</b>
<b>Item 13 – Review of Accounts</b>	<b>22</b>
<b>Item 14 – Client Referrals and Other Compensation</b>	<b>23</b>
<b>Item 15 – Custody</b>	<b>24</b>
<b>Item 16 – Investment Discretion</b>	<b>25</b>
<b>Item 17 – Voting Client Securities</b>	<b>26</b>
<b>Item 18 – Financial Information</b>	<b>27</b>

#### **Item 4 – Advisory Business**

- A.** PCIM is a Delaware limited liability company and was formed in May 2009 for the purpose of serving as the managing member and investment adviser of PCI Investors Fund II LLC (“**Fund II**” or the “**Fund**”), which was also formed in May 2009. PCIM is a wholly owned subsidiary of PCM. PCM is a limited liability company founded in 2006 by Stuart J. Boesky, and is 52% owned by SJB Associates, Inc. (which is wholly owned by Mr. Boesky), 13% owned by SJB Associates, LP (which is wholly owned by Mr. Boesky), and 35% owned by MIG Holdings, LLC. Additionally, PCM owns PCIM III and is a majority owner of PMH.
- B.** PCIM provides discretionary investment advisory services to the Fund, which is a domestic pooled investment vehicle. PCIM primarily provides investment advice regarding commercial real estate debt and structured financial products and, to a lesser extent, preferred equity throughout the United States. The investment strategy for Fund II will focus on investments in first mortgages, mezzanine loans and preferred interests secured by transitional commercial real estate assets in primary and secondary markets. An important part of the Fund’s strategy is to include in its investments certain real estate debt and, to a lesser extent, preferred equity in underserved property types and markets where governmental entities provide certain regulatory advantages and the Fund will pass-through these regulatory advantages to certain of its investors that are subject to the Community Reinvestment Act of 1977 (the “**CRA**”). Property types are primarily multifamily, office and retail, and a portion of these investments could bring new capital to community development and generate positive consideration under (“**CRA Consideration**”) the CRA investment test (“**CRA Investments**”).
- C.** PCIM’s investment management and advisory services are provided to Fund II, its only client, pursuant to the terms of the Fund II offering memorandum and based on the specific investment objectives and strategies as disclosed therein.
- D.** PCIM does not participate in wrap fee programs.
- E.** As of December 31, 2016, PCIM managed approximately \$32 million in regulatory assets under management on a discretionary basis. PCIM does not manage any assets on a non-discretionary basis.

## Item 5 – Fees and Compensation

**A&B.** The “**Preferred CRA Interests**” will be comprised of (i) the Series A Preferred CRA Interests (the “**Series A Preferred CRA Interests**”), and (ii) any additional series of Preferred CRA Interests issued by the Fund. At times, Fund investors are collectively referred to as “**Members**” (each, a “**Member**”).

### *Management Fees*

PCIM is paid an annual asset management fee by Fund II, payable quarterly in arrears.

During the commitment period, PCIM is paid a fund management fee for each fiscal quarter payable in respect of each Member will be equal to two percent (2%) per annum of the capital commitment of each such common Member.

Upon the earlier to occur of (1) the date on which all capital commitments to Fund II have been called and contributed to the Fund and (2) the date of the expiration of the commitment period, the Fund II management fee for each fiscal quarter payable in respect of each Member to Fund II will be equal to two percent (2%) per annum of the net equity invested of each such Member.

### *Incentive Fees*

All cash which PCIM deems available for distribution with respect Fund II’s investments, net of expenses attributable to such investment and an allocable portion of expenses not directly relating to any investment, will be distributed by the Fund at least quarterly to the Members as follows:

- (1) First, to the Members, until the cumulative distributions relating to the preferred return made by the Fund to the Member with respect to the investment and all realized investments equals a return of 8% per annum, compounded annually, on (A) all capital contributed by the Members with respect to the investment and all realized investments, and (B) a pro rata portion of the capital drawn for Fund expenses not directly relating to a particular investment, calculated for the period such capital was outstanding;
- (2) Second, to the Members, until the cumulative distributions relating to a return of capital made by the Fund to the Members with respect to the investment and all realized investments equals a return of all capital contributions made by the Members with respect to the investment and all realized investments, including a pro rata portion of capital drawn for Fund expenses not directly relating to a particular investment;
- (3) Third, (A) 50% to the Members, and (B) 50% to PCIM (or its designated affiliates), until PCIM (together with its designated affiliates) has received a cumulative 20% of the cumulative distributions (under subparagraph (1) and this subparagraph (3)) made by the Fund to date with respect to the investment and all realized investments; and
- (4) Finally, all remaining funds with respect to the investment shall be distributed (A) 20% to PCIM (or its designated affiliates) and (B) 80% to the Members.

### *Origination Fees*

PCIM or affiliated entities or persons may be paid origination fees, commitment fees, points and/or similar compensation in connection with loan origination services performed by PCIM or its affiliates relating to loans originated for Fund II including sourcing, due diligence and the negotiation and documentation of loan transactions, provided, however, that any origination fees shall be paid to or retained by Fund II which in turn, will pay such origination fees to PCIM.

The fee arrangements between Pembroke and the Fund were not the product of an arm's length negotiation with a third party.

- C.** The Fund shall reimburse PCIM for up to \$1 million incurred in connection with the expense of organizing and offering interests in the Fund; provided that, any fees in excess of such amount shall be borne by PCIM. Members will not be charged any sales or placement fees for purchasing interests in the Fund. The Fund will bear the initial cost of placement fees when otherwise due and payable, provided that, the management fees otherwise payable by the Fund to PCIM hereunder will be reduced until all such placement fees have been offset. The Fund shall be responsible for all fees and expenses incurred with respect to the business of the Fund and shall reimburse PCIM, as applicable, for the reasonable expenses, obligations and other liabilities incurred or paid by PCIM and its affiliates in performing the obligations of managing member and investment adviser to the Fund or otherwise providing services to or for the benefit of the Fund. All Fund expenses and management fees shall be paid out of cash funds of the Fund determined by PCIM to be available for such purpose.
- D.** PCIM does not require fees to be paid in advance.
- E.** Neither PCIM nor any of its supervised persons accept compensation for the sale of securities or other investment products.

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

The Fund is dependent on PCIM for its day-to-day management and does not have any independent officers or employees. The management agreement with PCIM was negotiated between related parties and its terms, including fees and other amounts payable, may not be as favorable as if it had been negotiated at arm's length with an unaffiliated third party. The Fund relies on Pembroke for its daily operation, origination of its investments and the management of its assets. Pembroke employees and its affiliates may have conflicts in allocating their management time, services and functions among Fund II and any future real estate investment programs or other business ventures which Pembroke may organize or serve, as applicable. Pembroke believes that it and its affiliates have enough staff to perform their responsibilities in connection with all of the real estate programs and other business ventures in which they are involved and that the employees of Pembroke will devote a sufficient portion of their time attending to the business of Fund II.

As noted in Item 5, PCIM is entitled to incentive fees or performance-based fees from Fund II. PCIM generally believes that the existence of performance fees aligns the interest of PCIM with the investors. Currently, all the private funds managed by Pembroke receive generally the same percentage performance fee.

However, conflicts of interest may arise in the allocation process of the investment opportunities that become available. In order to minimize this conflict, Pembroke has adopted policies and procedures which include the investment allocation process. In general, these policies provide for the fair and equitable allocation of investment opportunities among all Pembroke accounts and Pembroke accounts or affiliated parties. Pembroke or its affiliate's right to invest in the same investment opportunities is subject to the suitability of each investment opportunity for the particular client and the availability of cash for investment. However, Pembroke would seek Fund investor approval before any transaction with an affiliated party.

PCIM or its affiliates shall not form or advise another pooled investment vehicle with objectives substantially similar to those of the Fund (other than those transactions existing as of the initial closing) until the earlier of: (i) the end of the investment period or (ii) such time as the amounts invested or committed to investment in Fund investments, plus amounts reserved for follow-on financings, reasonably anticipated expenses of the Fund and management fees, equal at least 85% of the aggregate capital commitments of the Members.

In addition to co-investments with other funds managed by Pembroke, PCIM may offer co-investment opportunities in investments of Fund II. In the event any such co-investment opportunities are offered by PCIM in investments by Fund II (i.e., other than co-investments by other funds managed by Pembroke, such co-investment opportunities shall be offered first to the common Members pro rata in proportion to their capital commitments. The terms of any such co-investment opportunities offered shall be no less favorable to the common Members than if such co-investment were held through Fund II.

## **Item 7 – Types of Clients**

As indicated above, PCIM's only client is Fund II, a domestic limited liability company pooled investment vehicle. The types of investors in Fund II will generally be pension funds, commercial banks, investment banks, multi-strategy funds and individuals. However, any investor who qualifies as a "accredited investor" as defined in Regulation 501(a) of Regulation D under the Securities Act and a "qualified purchaser" as defined under Section 2(a)(51) of the Investment Company Act may be considered a permissible investor. In general, natural persons must own at least \$5,000,000 in investments, and entities at least \$25,000,000 in investments, in each case as defined under the Investment Company Act. The minimum commitment for the Fund is \$10 million, which PCIM may reduce at its own discretion.

It is Pembroke's policy not to disclose private information to any other party and to confirm that any personal information is adequately safeguarded. Individual investors will be given a Privacy Notice upon investing in Fund II, and material changes (if any) to Pembroke's privacy policy will be reflected in the Privacy Notice and will be distributed to investors on an annual basis, as necessary.



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

- A. PCIM believes that the asset management process begins within the origination phase and is integral to the underwriting of a transaction. Asset management is involved in the final review and approval of all transactions. Upon closing of a loan and once all information is verified and placed on the loan monitoring system, transactions are reviewed quarterly for covenant compliance and cash flow performance.

Critical to the review are the following items:

- Financial statements to assess current and prospective debt service coverage
- A current market analysis
- A property level leasing and occupancy review
- A progress report detailing the property's progress in achieving its business plan and any resulting impact on the viability of the exit strategies
- A reserve report for monitoring interest shortfalls, tenant improvement allowances, and other capital expenditures.

PCIM leverages its senior resources by using third party servicers to execute the back office functions at the asset level. Such servicers are rated and follow Commercial Mortgage Securities Association ("CMSA") standards and include well-known market participants such as Key Bank and Bank of America. Furthermore, PCIM believes in the ability to utilize technology to lever the expertise of the Management Team and has invested in proven and scalable technology.

PCIM also monitors macro real estate and local market metrics through their various industry contacts to further verify quality of the portfolio. The management team takes a proactive approach to potential collateral issues by working directly with a borrower and any co-lenders in order to aggressively defend the interests of the Fund. The management team's experience as owners and developers of real estate in all product types allows for a high level of assistance in problem situations and, if ever necessary, a willingness to assume an owner's position.

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

- B. *Members holding Common Interests and Preferred CRA Interests are subject to investment and trading risks in general.*

All investments risk the loss of capital. No guarantee or representation is made that the Fund II's program will be successful, and investment results may vary substantially over time. Fund II's investment program will utilize investment techniques such as futures, options, derivatives, margin transactions and short sales, which practices can, in certain circumstances, maximize the adverse impact to which the Fund may be subject.

*Interest rate fluctuations may cause losses.*

Fund II will bear interest rate exposure related to its mortgage backed securities and variable-rate debt, as well as its interest rate swaps and caps that the Fund primarily intends to utilize for hedging purposes. Changes in interest rates will affect the Fund's net interest income, which is the difference between the interest income the Fund earns on its interest-earning investments and the interest expense the Fund incurs in financing these investments. Changes in the level of interest rates also may affect the Fund's ability to originate and acquire assets, the value of the Fund's assets and the Fund's ability to realize gains from the disposition of such assets.

In a period of rising interest rates, Fund II's interest expense could increase, while the interest Fund II earns on its fixed-rate debt investments would not change. This would adversely affect Fund II's profitability. In addition, any increase in interest rates will increase the aggregate Series A Distributions (as defined below) payable by Fund II on its Series A Preferred CRA Interests (which are based on a variable rate). Any increase in the amounts payable on the Series A Preferred CRA Interests will reduce the current yield on the Common Interests. In addition, any subsequent series of Preferred CRA Interests issued by Fund II that are entitled to distributions based on variable rates will be subject to these same risks. Further, the yields on Preferred CRA Interests are subject to reset at the market rate on or about the fifth anniversary of the date of issuance of such Preferred CRA Interests. The rates at which the Preferred CRA Interests are reset could dramatically increase Fund II's cost of capital and thereby reduce the yield on the Common Interests.

Fund II's operating results will depend in large part on differences between the income from its assets, net of credit losses, and financing costs. Fund II anticipates that, in most cases, for any period during which its assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of its borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence Fund II's net income. Increases in these rates will tend to decrease Fund II's net income and market value of its assets. Interest rate fluctuations resulting in Fund II's interest expense exceeding interest income would result in operating losses for the Fund.

**C.** *Fund II's real estate investments are subject to risks particular to real property.*

The Fund will own assets secured by real estate and may own real estate directly. Real estate will be subject to various risks, including: (i) acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001; (ii) adverse changes in national and local economic and market conditions; (iii) changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; (iv) costs of remediation and liabilities associated with environmental conditions such as indoor mold; and (v) the potential for uninsured or under insured property losses. If any of these or similar events occurs, it may reduce the Fund's return

from an affected property or investment and reduce or eliminate the Fund's ability to make distributions to Members.

*Fund II will invest in commercial mortgage loans, and will face special risks relating to commercial mortgage loans.*

Commercial mortgage loans have certain distinct risk characteristics. Mortgage loans on commercial properties generally lack standardized terms, which may complicate their structure and increase due diligence costs. Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than non-commercial properties and to the corresponding burdens and costs of compliance with environmental laws and other regulations.

Commercial mortgage loans also tend to have shorter maturities than residential mortgage loans and are generally not fully amortizing, which means that they may have a significant principal balance or "balloon" payment due on maturity. Mortgage loans with a balloon payment involve a greater risk to a lender than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend upon its ability either to fully refinance the loan or to sell the property securing the loan at a price sufficient to permit the borrower to make the balloon payment. The ability of a borrower to effect a refinancing or sale will be affected by a number of factors, including the value of the property, the level of available mortgage rates at the time of sale or refinancing, the borrower's equity in the property, the financial condition and operating history of the property and the borrower, tax laws, prevailing economic conditions and the availability of credit for loans secured by the specific type of property.

Commercial mortgage loans generally are non-recourse to borrowers. In the event of foreclosure on a Commercial mortgage loan, the value at that time of the collateral securing the mortgage loan may be less than the principal loan and the accrued but unpaid interest thereon.

Commercial mortgage loans are also subject to the effects of (i) the ability of tenants to make less payments, (ii) the ability of a property to attract and retain tenants, which may in turn be affected by local conditions such as oversupply of space or a reduction in demand for rental space in the area, the attractiveness of properties to tenants, competition from other available space and the ability of the owner to pay leasing commissions, provide adequate maintenance and insurance, pay tenant improvement costs and make other tenant concessions, (iii) interest rate levels and the availability of credit to refinance such loans at one prior to maturity, (iv) compliance with regulatory requirements and applicable laws, including environmental controls and regulations, and (v) increased operating costs, including energy costs and real estate taxes. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties and such tenants may seek in protection of the bankruptcy laws which can result in termination of lease contracts. In addition, while

commercial properties generally will carry comprehensive liability and casualty coverage, such coverage may not provide full protection for the value of the underlying property and may not protect against all casualty losses, including damage due to floods, earthquakes, hurricanes and terrorism.

If the properties securing the mortgage loans do not generate sufficient income to meet operating expenses, debt service, capital expenditure and tenant improvements, the obligors under the mortgage loans may be unable to make payments of principal and interest in a timely fashion. Income from and values of commercial properties are also affected by such factors as the quality of the property manager, applicable laws, including tax laws, interest rate levels, the availability of financing for owners and tenants and the impact of and costs of compliance with environmental controls and regulations.

*Fund II may investment in mezzanine loans which involve greater risks of loss than senior loans secured by income producing properties.*

Fund II may invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, the Fund may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy the Fund's mezzanine loan. If a borrower defaults on the Fund's mezzanine loan or debt senior to the Fund's loan, or in the event of a borrower bankruptcy, the Fund's mezzanine loan will be satisfied only after the senior debt. As a result, the Fund may not recover some or all of its investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

*Preferred equity investments involve a greater risk of loss than traditional debt financing and specific risks relating to particular issuers.*

The Fund may invest in preferred securities including those of REITs and real estate operating companies. Preferred equity investments involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to debt and are not secured by property underlying the investment. Furthermore, should an issuer of preferred equity default on the Fund's investment, the Fund would only be able to proceed against the issuer, and not the property owned by the issuer and underlying the Fund's investment. In most cases, a preferred equity holder has no recourse against an issuer for a failure to pay stated dividends; rather, unpaid dividends typically accrue and the preferred shareholder maintains a liquidation preference in the event of a liquidation of the issuer of the preferred securities. There can be no assurance that an issuer would have sufficient assets to satisfy any liquidation preference to which

the Fund may be entitled. As a result, the Fund may not recover some or all of its investments in preferred equity securities.

*Bridge loans will involve a greater risk of loss than traditional insured and investment grade mortgage loans.*

Fund II may provide bridge loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition and renovation of property. The borrower has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and Fund II bears the risk that Fund II may not recover some or all of Fund II's investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan. Bridge loans therefore are subject to risks of a borrower's inability to obtain permanent financing to repay the bridge loan. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by Fund II, Fund II bears the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the bridge loan. To the extent Fund II suffers such losses with respect to Fund II's investments in bridge loans, the value of Fund II may be adversely affected.

*Prepayment rates can increase, adversely affecting yields on Fund II's investments.*

The value of Fund II's assets may be affected by prepayment rates on mortgage loans. Prepayment rates on mortgage loans are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond Fund II's control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining mortgage interest rates, prepayments on mortgage loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by Fund II in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of the mortgage assets may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on mortgage loans generally decrease, in which case Fund II would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios the Fund may fail to recoup fully its cost of acquisition of certain investments.

*A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could harm Fund II's operations.*

PCIM believes the risks associated with its business will be more acute during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. Declining real estate values will likely reduce Fund II's level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Further, declining real estate values significantly increase the likelihood that Fund II will incur losses on its loans in the event of default. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both the Fund's net interest income from loans in its portfolio as well as Pembroke's ability to originate, sell and securitize loans, which would significantly harm its revenues, results of operations, financial condition, business prospects and Fund II's ability to make distributions to its Members.

*Fund II may not be able to access financing sources on favorable terms, or at all, which could adversely affect Fund II's return, leverage, could increase Fund II's risk.*

While the Fund does not initially intend to incur additional indebtedness, the Fund's return on investment could, in the future, depend, in part, upon its ability to increase its invested assets through the use of leverage at a cost of debt that is lower than the yield earned on its investments. The Fund's failure to obtain and/or maintain leverage at desired levels (which is targeted at a 1:1 loan-to-value ratio), or to obtain leverage on attractive terms, could have an adverse effect on the Fund's performance. The Fund's ability to obtain financing is subject to conditions in the debt capital markets which are impacted by the factors beyond its control. Due to current market conditions, there is little or no credit available.

Borrowing will tend to magnify the profits or losses of the Fund. The level of interest rates at which the Fund can borrow will affect the operating results of the Fund, and the terms of any refinancing may not be as favorable as the terms of the debt being refinanced. In the event of a sudden precipitous drop in the value of the Fund's assets, cash flow from operations may not be sufficient to make required payments of principal and interest, resulting in the loss of some or all of the Fund's assets to foreclosure or sale in order to satisfy debt obligations. The Fund may be required to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, distributions and other purposes.

*Fund II expects many of its investments to be illiquid and Fund II may not be able to vary Fund II's portfolio in response to changes in economic and other conditions.*

The Fund's mortgage loan investments and other real estate finance-related investments are relatively illiquid and some are highly illiquid. Such illiquidity may limit the Fund's ability to vary its portfolio in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale. In addition, illiquidity may result from the decline in value of a property securing these investments. Illiquid investments may

require a significant amount of time from the date of initial investment before disposition. The Fund cannot make assurances that the fair market value of any of the real property serving as security will not decrease in the future, leaving the Fund under-collateralized or not collateralized at all, which could impair the liquidity and value, as well as its return on such investments. Sales of such illiquid investments may not be possible and, if possible, may be at the substantial discounts from cost.

*Fund II depends upon the current interpretation of the CRA and other banking regulations and the applicable regulations thereunder.*

Changes in the laws and regulations related to the CRA or other banking laws and regulations, and the interpretation of such laws and regulations, could impede the Fund's ability to realize its investment objectives. CRA regulations heavily influence the ability of financial institutions to originate investments qualifying under the CRA, as well as the Fund's ability to allocate CRA Investments to Members holding its Preferred CRA Interests. Changes to the CRA or its related regulations, or to other banking laws and regulations affecting the Fund's bank investors, could interfere with the Fund's operations and criteria for properly allocating CRA Investments and hamper the Fund's ability to meet its investment objectives.

*The Fund may target investments with unfavorable or below-market yields or returns in order to make CRA Investments available to Members holding its Preferred CRA Interests.*

In order to make CRA Consideration available to Members holding its Preferred CRA Interests, the Fund will target investments that it believes are more likely than not to receive positive consideration under the CRA. In doing so, the Fund may decide that it is in the best interest of the Fund and the Members holding Preferred CRA Interests to pay premiums for such CRA Investments. Although the Fund intends to target the most attractive available CRA Investments, it is possible that such investments may result in reduced yields or returns to the Fund, or yields that are not as favorable as comparable investments that are not CRA-eligible.

*The CRA Rating Agencies may not consider the Fund's Preferred CRA Interests "qualified investments" under the CRA.*

The CRA Rating Agencies do not deem specific investments, including the Preferred CRA Interests, as "qualified" at the time of their issuance. Rather, the final determination as to the "qualified" nature of investments is made by the CRA Rating Agencies as part of their evaluation process. Based on the interpretive rulings of the CRA Rating Agencies, the Fund believes that the Preferred CRA Interests will more likely than not be deemed "qualified investments" and will more likely than not entitle Members holding the Preferred CRA Interests to receive positive consideration by the CRA Rating Agencies. However, the CRA Rating Agencies will ultimately decide, in the course of their periodic examinations whether financial institutions may properly receive CRA Consideration resulting from all or a portion of their respective investments in the Preferred CRA Interests. There can be no assurance that the CRA Rating Agencies will deem investments in the Preferred CRA

Interests as “qualified” investments under the CRA or that Members holding such Preferred CRA Interests are entitled to CRA Consideration as a result of such investments.



**Item 9 – Disciplinary Information**

- A.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.
- B.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.
- C.** Neither Pembroke, nor any of its partners, officers or principals has been involved in any self-regulatory organization proceedings.

## Item 10 – Other Financial Industry Activities and Affiliations

- A. Neither PCIM nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither PCIM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Pembroke and related entities invest, on behalf of their clients, in and originates commercial real estate debt to finance all parts of a capital structure from first mortgages, mezzanine, bridge loans and commercial mortgage-backed securities, as well as preferred equity and loans for real estate operating companies.

PCIM also has a relationship with Mariner through their indirect ownership of PCIM. Through its affiliation with PCM and Mariner, PCIM has several related persons. A full list of those persons may be found on Schedule D of PCM's Form ADV.

The Fund may enter into arrangements whereby its affiliated broker-dealer, Mariner Group Capital Markets, Inc., and certain of its registered representatives (who may also be employees of Pembroke) (hereinafter collectively referred to as “**MGCM**”), will act as the primary marketing agent (e.g., placement agent, finder, solicitor, etc.) for the Fund in the placement of Interests. Pursuant to such arrangements, if any, the Fund may pay to MGCM a placement fee with respect to Interests placed by MGCM. The Advisory Fee payable to PCIM will be reduced to the extent of such placement fees paid by the Fund. The Members will not be subject to the payment of sales commissions or additional compensation to MGCM as a result of any such placement arrangements. Pursuant to such arrangements, if any, MGCM registered representatives (who may also be employees of Pembroke) are acting solely and exclusively on behalf of the Fund, and not on behalf any Member or prospective Member. More specifically, MGCM registered representatives, in their capacity as marketing agents and to the extent of such arrangements are acting solely as “finders”, and do not and will not, among other things, carry any customer or other account, or receive or hold money or others assets of a referred investor or any other person. MGCM is a registered limited purpose broker-dealer and generally serves as placement agent in private offerings and does not execute any trades on behalf of PCIM, the Managing Member, the Fund, or any of its client accounts.

Relying Advisers. PMH, PCIM, and PCIM III (each, a “**Relying Adviser**” and, collectively, “**Relying Advisers**”) serve as manager, managing Member or investment manager with respect to one or more Pembroke clients. While PCM and the Relying Advisers have been organized as separate legal entities, they collectively conduct a single investment advisory business. Accordingly, each Relying Adviser relies and/or will rely on PCM's investment adviser registration instead of separately registering as an investment adviser with the SEC under the Advisers Act. To rely on PCM's registration, (i) the Relying Adviser, its employees and persons acting on its behalf will be “persons associated with” and “supervised persons” (as each term is defined in the Advisers Act) of PCM, (ii) any

investment advisory services will be subject to PCM's supervision and control, (iii) any investment advisory functions will be subject to the Advisers Act and the rules and regulations thereunder, and (iv) the activities and books and records of the Relying Adviser will be subject to inspection and examination by the SEC. Each Relying Adviser will be subject to PCM's compliance policies and procedures and, except as the context otherwise requires, any reference in this brochure to Pembroke and/or PCM includes both PCM and the Relying Advisers. PCM has disclosed in the Miscellaneous Section of Schedule D of Part 1A of its Form ADV that PCM and each of the Relying Advisers are together filing a single Form ADV in reliance upon guidance expressed in a SEC no-action letter.

- D.** PCIM does not recommend or select other investment advisers for its clients.

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

A. Pembrook has adopted a code of ethics as required by Rule 204A-1 under the Investment Advisers Act. The code of ethics requires employees to conduct business with the highest ethical standards and always put the client interests above the interests of themselves and restricts them from purchasing securities in which their clients may invest. It requires employees to report any violations immediately to the Chief Compliance Officer. It also addresses:

- Employee personal trading including:
  - Reporting personal securities transactions
  - Preclearance of certain transactions
  - Annual reporting of securities holdings
- Limits and reporting requirements on gifts and entertainment
- Limits and reporting requirements for political contributions
- Employees are required to acknowledge receipt of the code
- Electronic Communication and Social Media Policy

A copy of the code of ethics is available upon request.

Pembrook has adopted other policies to protect the interest of its clients and prevent violations of applicable laws as required by Rule 206(4)-7 under the Investment Advisers Act (“**Rule 206(4)-7**”). In accordance with Rule 206(4)-7, Pembrook reviews these policies and procedures no less frequently than annually to ascertain their effectiveness and determine whether they are being adequately followed.

**B-D.** Compensation of the investment professionals for PCIM generally consists of salary, discretionary bonus and may receive a percentage of the incentive fee earned by PCIM.

MGCM and its registered representatives, who are also employees of Mariner Investment Group, LLC have a financial interest in the distribution of the securities offered for sale by the Fund. Pembrook has also retained, or may retain, the services of non-affiliated third-party placement agents that are financially incentivized to make investment recommendations. Notwithstanding the potential conflicts of interest referenced above, please note that all remuneration paid to MGCM or any other third-party placement agent shall be paid by Pembrook and NOT Fund investors.

PCIM, Pembrook nor any such related persons do not invest in the same securities that PCIM recommends to clients. PCIM, Pembrook nor any such related persons do not buy or sell the securities for their own that are recommended to, or bought/sold on behalf of clients.

## **Item 12 – Brokerage Practices**

- A.** This policy is not related to the selection of real estate brokers from whom Pembroke may receive opportunities to invest in real estate loans, as such transactions are concluded directly with the respective borrowers and are not subject to such brokers' ability to process such transactions or dependent on such brokers' financial strength. However, it is Pembroke's intention at all times to work with proven and reputable real estate brokers. PCIM does not currently engage in trading transactions on behalf of the Fund or utilize the services of broker dealers for transaction related services. In the event PCIM were to select or recommend broker-dealers for Fund transactions, PCIM would seek best execution of transactions and allocate transactions to broker-dealers for execution on markets/exchanges and at prices and commission rates that in PCIM's good faith judgment are in the best interest of the Fund. In selecting brokers or dealers to effect portfolio transactions on behalf of the Fund, PCIM considers such factors as price, the ability to effect the transactions, the brokers' or dealers' facilities, reliability and financial responsibility, special execution capabilities, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short trades, custody, recordkeeping and similar services, and any research or services provided by such brokers or dealers. PCIM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. PCIM may cause an amount to be paid to a broker or dealer that furnishes research or services at a higher price than that which might be charged by another broker or dealer for effecting the same transaction, provided that PCIM determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research or investment management-related services provided by such broker/dealer. Research and services obtained by the use of commissions arising from portfolio transactions may be used by PCIM in its other investment activities, and, therefore, the Fund may not, in any particular instance, be the direct or indirect beneficiary of the research or services provided. Research and related services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing services; discussions with research personnel and other news utilized in the investment management and execution process. The research that is provided by the broker/dealer is generally proprietary information made available by the broker/dealer to all of its clients or prospective clients. PCIM does not enter into any agreement with any broker/dealer to obtain any research from third party providers or from the broker/dealer in exchange for agreeing to direct a certain level of commissions to that broker or dealer.

PCIM does not consider any client referrals when selecting broker/dealers.

- B.** PCIM does not aggregate the purchase or sale of securities for client accounts.

**Item 13 – Review of Accounts**

- A.** Senior management of Pembroke engages in ongoing surveillance of the holdings and investments made by Fund II. Management receives weekly and quarterly reports to assist them in the management of Fund II's assets which includes a summary of all investments.
- B.** Management also performs ad hoc testing to confirm that the Fund's investments are within the parameters set by Fund II.
- C.** PCIM provides reports to Fund investors quarterly and may provide interim reports as well.

#### **Item 14 – Client Referrals and Other Compensation**

- A.** Pembrook does not receive an economic benefit from any non-client source with respect to providing investment advice or other advisory services to its clients.
- B.** Neither Pembrook nor any of its related persons directly or indirectly compensates any person who is not a Pembrook supervised person for client referrals.

PCM has entered into arrangements whereby its affiliated broker-dealer MGCM and certain of its registered representatives, will act as the co-placement agent for the Fund in the distribution of Member Interests. Pursuant to such arrangements, Pembrook will pay to MGCM a portion of the Management and/or Incentive Fee with respect to Member Interests distributed by MGCM. Member Interest holders will not be subject to the payment of sales commissions or additional compensation to MGCM as a result of such distribution arrangements.

## Item 15 – Custody

PCIM is deemed to have a form of custody of Fund II's assets (funds or securities) due to the ability to deduct fees from Fund II, even though indirectly through the administrator.

Unless otherwise approved by Pembroke's CEO or his designee, Fund II assets will be custodied with qualified custodians (collectively, the "**Custodians**"). The Custodians will hold the assets either (i) in a separate account under the client's name; or (ii) in an account containing only the client's assets under Pembroke's name, as agent or trustee for the client.

Pembroke has been advised by counsel and concluded that loan agreements and promissory notes for the benefit of Pembroke's Clients are not required to be custodied with Custodians. It is Pembroke's policy to hold such agreements and notes in a secured, fire-proof location within Pembroke's offices.

As required by the Custody Rule, since PCIM's sole client is a private fund, an annual audit of Fund II is conducted by an independent public accountant that is subject to inspection by the Public Company Accounting Oversight Board. Additionally, Fund II's financial statements will be prepared in accordance with U.S. Generally Accepted Accounting Principles ("**GAAP**"), and distributed within 120 days of the fiscal year-end. These reports will be in written form and clients should carefully review those statements.



**Item 16 – Investment Discretion**

PCIM has full discretion over Fund II transactions, and client directed brokerage is not permitted.

## **Item 17 – Voting Client Securities**

**A&B.** PCIM generally does not invest in equity securities that regularly vote shares. However, PCIM has adopted a proxy policy should a proxy vote arise or to handle any class actions. Should any matters arise that require a vote of the holders of any securities held by the Fund, senior management of Pembroke would review the issue or issues to be voted on and cast their votes in the best economic interest of the Fund. A copy of the proxy voting policy and a record of all votes cast by PCIM on behalf of Fund II, may be obtained by mailing the request to the attention of Robert Hellman at Pembroke Capital Management LLC, 485 Madison Avenue, 22nd Floor, NY, NY 10022 or emailing the request to [rhellman@pembrookgroup.com](mailto:rhellman@pembrookgroup.com).

**Item 18 – Financial Information**

Not applicable.