



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

ISLAND INVESTMENT MANAGEMENT LLC
717 FIFTH AVENUE, 18TH FLOOR
NEW YORK, NEW YORK 10022
PHONE: (212) 705-5000
FAX: (212) 705-5001

DATE OF BROCHURE: AUGUST 31, 2020

WWW.ISLECAP.COM

This Brochure provides information about the qualifications and business practices of Island Investment Management LLC (“IIM”). If you have any questions about the contents of this Brochure, please contact Lawrence Block, IIM’s Chief Compliance Officer, directly at (212) 705-5090 or by e-mail at lblock@islecap.com.

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

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

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

ITEM 2: MATERIAL CHANGES

This Brochure updates IIM's previous Brochure dated June 25, 2020, as follows:

1. As of July 29, 2020, IIM is registered as an independent investment adviser with the SEC, and is no longer a "relying adviser" of an affiliate, C-III Investment Management LLC;
2. Removes C-III Commercial Mortgage LLC ("C3CM") and C-III Mortgage Funding LLC ("C3MF") as financial industry affiliates of C-III;
3. Reflects that Exantas Capital Manager Inc. ("XCM") (i) is no longer an SEC-registered investment adviser and (ii) is no longer a financial industry affiliate of IIM; and
4. Reflects that Exantas Capital Corp. ("XAN"), a publicly-traded REIT for which XCM serves as the external manager, is no longer a financial industry affiliate of IIM.

The information set forth in this Brochure is qualified in its entirety by reference to the Governing Documents (as defined herein) and/or offering documents. In the event of a conflict between the information set forth in this Brochure and the information set forth in the Governing Documents and/or offering documents, the Governing Documents and/or offering documents shall take precedence.

ITEM 3: TABLE OF CONTENTS	PAGE
PART 2A – BROCHURE	
ITEM 2: MATERIAL CHANGES	2
ITEM 3: TABLE OF CONTENTS	3
ITEM 4: ADVISORY BUSINESS.....	4
ITEM 5: FEES AND COMPENSATION.....	5
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	10
ITEM 7: TYPES OF CLIENTS	11
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	11
ITEM 9: DISCIPLINARY INFORMATION.....	48
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	48
ITEM 11: CODE OF ETHICS, SUPERVISED PERSON CONDUCT, PARTICIPATION OR INTEREST IN NYCRFI TRANSACTIONS AND PERSONAL TRADING.....	51
ITEM 12: BROKERAGE PRACTICES.....	56
ITEM 13: REVIEW OF ACCOUNTS	59
ITEM 14: NYCRFI REFERRALS AND OTHER COMPENSATION.....	59
ITEM 15: CUSTODY	60
ITEM 16: INVESTMENT DISCRETION	60
ITEM 17: VOTING NYCRFI SECURITIES	61
ITEM 18: FINANCIAL INFORMATION	61
ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS.....	61
MISCELLANEOUS: ADDITIONAL INFORMATION	61
PART 2B - BROCHURE SUPPLEMENTS	

ITEM 4: ADVISORY BUSINESS

A. BACKGROUND

Island Investment Management LLC (“IIM”), a Delaware limited liability company, is an SEC-registered investment adviser that began providing investment advisory services in 2020. It is wholly-owned by Island Capital Group LLC (“ICG”), a Delaware limited liability company of which Andrew L. Farkas is the managing member. ICG is a private real estate merchant banking firm formed in 2003.

B. TYPES OF ADVISORY SERVICES OFFERED

IIM serves as investment manager to Island NYC Recovery Fund I L.P. (“NYCRFI”), a collective investment vehicle that invests in real estate and real estate-related assets primarily located in New York City.

Island NYCRF Directives LLC (“**Island NYCRF Directives**”), a wholly-owned subsidiary of ICG, serves as the general partner of NYCRFI. Island NYCRF Directives is a Supervised Person (as defined in Item 11 below) of IIM and conducts its activities in accordance with the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”), and the rules promulgated thereunder. Officers and employees of Island NYCRF Directives and other affiliates of IIM, and other persons acting on IIM’s behalf, are subject to the supervision and control of IIM, including being subject to IIM’s investment adviser compliance manual (the “**Compliance Manual**”) and other policies and procedures. Island NYCRF Directives is relying on IIM’s registration under the Advisers Act and is not registering itself in accordance with the Letter dated December 8, 2005 from the SEC to the American Bar Association Subcommittee on Private Investment Entities (the “**2005 SEC Letter**”).

C. NYCRFI INVESTMENT GUIDELINES AND PARAMETERS

IIM serves as investment manager to NYCRFI pursuant to an investment management agreement between NYCRFI and IIM (the “**Investment Management Agreement**”). IIM also operates in accordance with the terms set forth in the limited partnership agreement of NYCRFI (the “**Limited Partnership Agreement**”) (together with the Investment Management Agreement and, as applicable, any side letter agreements negotiated with investors in NYCRFI, the “**Governing Documents**”), which includes specific information concerning the operation and management of NYCRFI. IIM has the authority to recommend all investment decisions for NYCRFI, subject to compliance with the investment criteria set forth in NYCRFI Governing Document. Such criteria generally include, among other things, (i) approval by Island NYCRF Directives and (ii) if applicable, approval by NYCRFI’s Advisory Committee or independent representative(s) with respect to (a) any affiliate transaction between NYCRFI, on the one hand, and IIM, one of its affiliates or an Affiliated Investment Entity (defined in *Conflicts of Interest - Other Activities of ICG* below), on the other hand, and (b) any other transaction requiring Advisory Committee approval as set forth in the Governing Documents. See also Item 16 below.

IIM identifies investment opportunities for NYCRFI and participates in the acquisition, management, monitoring and disposition of each of NYCRFI’s investments. Except for the initial determination as to a prospective investor’s qualifications for investment in NYCRFI, the individual needs of the limited partners in NYCRFI are not considered in the management of

NYCRFI and are not the basis of investment decisions by IIM. Investment advice is provided directly to NYCRFI, and not individually to the investors in NYCRFI.

Island NYCRF Directives is also deemed to provide investment advisory services to NYCRFI.

IIM or an affiliate may organize one or more pooled investment vehicles in the future that may offer their interests, or investors may purchase interests in NYCRFI in a secondary transaction. Interests in NYCRFI are offered only to persons that are (i) “accredited investors,” as defined in Regulation D under the Securities Act of 1933, as amended (the “**Securities Act**”) and (ii) either “qualified purchasers” or “knowledgeable employees,” each as defined in the Investment Company Act of 1940, as amended (the “**Investment Company Act**”), and the rules thereunder.

D. WRAP FEE PROGRAMS

IIM does not participate in wrap programs.

E. NYCRFI ASSETS UNDER MANAGEMENT

As of June 30, 2020, IIM manages one client account on a discretionary basis with regulatory assets under management of \$223,000,000.

ITEM 5: FEES AND COMPENSATION

A. COMPENSATION

IIM is compensated pursuant to the terms of the Investment Management Agreement.

As investment manager of NYCRFI, IIM is entitled to receive an annual management fee from NYCRFI (the “**Management Fee**”), payable quarterly in advance, equal to (i) during the Commitment Period (as defined in the Limited Partnership Agreement), the sum of (a) 1% per annum of the remaining capital commitment of each partner plus (b) 1.5% per annum of the aggregate capital contributions of each partner contributed in respect of Investments (as defined in the Limited Partnership Agreement) that have not been the subject of a disposition, and (ii) after the Commitment Period (as defined in the Limited Partnership Agreement), the sum of (a) 1% per annum of any remaining capital commitments intended to be called with respect to any transaction in progress plus (b) 1.5% per annum of the aggregate capital contributions of each partner contributed in respect of Investments (as defined in the Limited Partnership Agreement) that have not been the subject of a disposition.

In addition, after the investors in NYCRFI receive distributions of Net Investment Revenues (as defined in the Limited Partnership Agreement) equal to their capital contributions and a preferred return thereon, Island NYCRF Directives will be entitled to receive a carried interest (or promote) in NYCRFI in an amount equal to (i) 50% of distributions of Net Investment Revenues (as defined in the Limited Partnership Agreement) until Island NYCRF Directives has received cumulative distributions equal to 20% of all distributions of Net Investment Revenues (as defined in the Limited Partnership Agreement) made pursuant to Section 5.02(B) and Section 5.02(C) of the Limited Partnership Agreement, and (ii) 20% of distributions of Net Investment Revenues (as defined in the Limited Partnership Agreement) thereafter. IIM will not directly receive any portion of Island NYCRF Directives’ carried interest (or promote). Please refer to Item 6 for additional information regarding performance-based compensation.

Certain investors in NYCRFI may pay no (or a reduced) Management Fee or carried interest in connection with their investment in NYCRFI. Notwithstanding that these investors will pay no (or a reduced) Management Fee or carried interest, these investors will bear their pro rata share of NYCRFI's expenses.

B. PAYMENT OF FEES

NYCRFI will pay fees to IIM as set forth in the Investment Management Agreement described above.

C. ADDITIONAL FEES AND EXPENSES

Other costs and expenses payable by NYCRFI generally include (i) out-of-pocket expenses incurred in connection with the organization and formation of Island NYCRF Directives, the NYCRFI and any Related Investment Vehicle (as defined in the Limited Partnership Agreement) and other related entities organized by Island NYCRF Directives or its affiliates and the offering of the interests therein, including, without limitation, legal and accounting fees and expenses; printing costs; filing fees; and the transportation, meal and lodging expenses of any personnel of ICG or its affiliates incurred during the provision of services in connection with the organization of NYCRFI ("**Organizational Expenses**"), and (ii) third-party costs and expenses of maintaining the operations of NYCRFI and maintaining, acquiring, financing, hedging and disposing of its investments (to the extent not paid for or reimbursed by such investment), including costs incurred in connection with pursuing possible investments (including potential Warehoused Investments (as defined below)) that are not subsequently acquired, including, without limitation, taxes; fees and other governmental charges levied against NYCRFI; insurance (including, without limitation, with respect to indemnifiable liabilities); administrative and research fees; fees for outside services; expenses of custodians, outside advisors, counsel, accountants, auditors, administrators and other consultants and professionals; expenses associated with forming and operating Alternative Investment Vehicles (as defined in the Limited Partnership Agreement) and other holding vehicles related to an investment; technological expenses; data services, financial modeling software and financial modeling services; interest on and fees, costs and expenses arising out of all financings entered into by NYCRFI (including, without limitation, those of lenders, investment banks, and other financing sources); travel expenses; brokerage commissions; custodial expenses; litigation expenses (including the amount of any judgments or settlements paid in connection therewith); liquidation expenses; expenses incurred in connection with any tax audit, investigation, settlement or review; expenses of NYCRFI's Advisory Committee members; expenses associated with meetings of the Advisory Committee and the limited partners and the preparation and distribution of reports, financial statements, tax returns and K-1s to the limited partners; indemnification and other unreimbursed expenses; and any extraordinary expenses to the extent not reimbursed or paid by insurance ("**Operating Expenses**").

Except as otherwise provided and subject to any limits in the Limited Partnership Agreement, NYCRFI will pay, or reimburse Island NYCRF Directives or any affiliate thereof, as applicable, for its payment of, NYCRFI's *pro rata* share of Operating Expenses. NYCRFI shall reimburse Island NYCRF Directives (or its affiliates, as applicable) for NYCRFI's *pro rata* share of Operating Expenses only to the extent Island NYCRF Directives (or its affiliates) incurs out-of-pocket expenses relating to NYCRFI. Notwithstanding the foregoing and except as provided below and in the Limited Partnership Agreement, IIM and Island NYCRF Directives are responsible for any costs and expenses related to their own operations, including but not limited to insurance, rent,

compensation of personnel (including salaries, bonuses and benefits), furniture and fixtures and other office equipment.

Except as otherwise provided and subject to any limits in the Limited Partnership Agreement, Island NYCRF Directives may cause NYCRFI to pay, or reimburse Island NYCRF Directives or any affiliate thereof, as applicable, for its payment of NYCRFI's *pro rata* share (based on the ratio of aggregate Capital Commitments to Aggregate Commitments, each as defined in the Limited Partnership Agreement) of Organizational Expenses and Placement Fees (as defined below); *provided*, that the Management Fee shall be reduced dollar-for-dollar for all payments or reimbursements by NYCRFI of (i) Organizational Expenses that exceed NYCRFI's *pro rata* share of \$1,500,000 and (ii) Placement Fees (the sum of the amounts described in clauses (i) and (ii) being "**Excess Formation Expenses**"). If at any point in time Excess Formation Expenses exceed the amount by which previous installments of the Management Fee have been reduced, the excess shall be carried forward for offset against future installments of the Management Fee. If, upon liquidation of NYCRFI, Excess Formation Expenses exceed the amount by which the payment of the Management Fee has been reduced, any distributions owing to Island NYCRF Directives shall be reduced by the amount of such excess and, if such distributions are insufficient, Island NYCRF Directives shall contribute the amount not covered to NYCRFI t, which shall be paid, *pro rata*, to NYCRFI's partners directly.

In addition, NYCRFI bears all costs associated with its underlying investments, including but not limited to the costs of acquiring land or property, zoning or other development approvals, environmental approvals, the costs of complying with building, safety or governmental regulations (such as environmental legislation, rent control, compliance with the Americans with Disabilities Act or other regulations), design and engineering costs and expenses, development and redevelopment costs (including costs associated with delays in construction as a result of weather or material shortages), property management costs and expenses, costs associated with leasing and other marketing activities, sales or other brokerage expenses, costs associated with financing, refinancing, borrowing or other lending activities, legal and accounting expenses, the cost of annual audits, custodial fees, insurance and litigation expenses, and taxes, fees, and other governmental charges. In the case of real estate equity investments, such costs and expenses are generally borne by a "special purpose vehicle" ("**SPV**") that owns the underlying real estate. Because NYCRFI owns all or a portion of such special purpose vehicle, NYCRFI will indirectly bear such costs and expenses.

From time to time, Island NYCRF Directives may create certain SPVs or similar structuring vehicles for purposes of accommodating certain tax, legal and regulatory considerations of NYCRFI's partners. In the event Island NYCRF Directives creates an SPV, consistent with the Governing Documents, the SPV, and indirectly, NYCRFI and its partners, will bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the SPV.

In certain cases, a co-investment vehicle, or other similar vehicle established to facilitate the investment by NYCRFI's partners to invest alongside NYCRFI, may be formed in connection with the consummation of a transaction. In the event a co-investment vehicle is created, the investors in such co-investment vehicle will bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the co-investment vehicle. The co-investment vehicle will bear its *pro rata* portion of expenses incurred in making an investment. If a proposed transaction is not consummated, either (i) no such co-investment vehicle generally will have been

formed, and the full amount of any expenses relating to such proposed but not consummated transaction (“dead deal costs”) would therefore be borne by NYCRFI or (ii) a cost-sharing agreement will have been put in place and the proposed co-investment vehicle investors (or IIM) will bear the co-investment vehicle’s pro rata portion of any dead deal costs.

If NYCRFI acquires title to or otherwise gains control of real property, Island NYCRF Directives may cause NYCRFI (or its subsidiaries) to engage IIM, ICG, or their respective affiliates to provide property-level services in respect of such real property, including, without limitation, property management, construction management, leasing, development, property zoning services, financing, primary or special loan servicing, marketing, brokerage or other services (collectively, “**Property-Related Services**”). IIM may use an affiliate to provide Property-Related Services, rather than a third party, if it determines that such affiliate has the requisite expertise to provide such services and that the use of an affiliate to provide such Property-Related Services, rather than an independent third party, is beneficial to NYCRFI. To the extent IIM or any of its affiliates perform any Property-Related Services and the fees and compensation (“**Property-Related Service Fees**”) are included in the operating expenses of NYCRFI (and NYCRFI therefore bears the cost of such Property-Related Services), such Property-Related Services and the terms and conditions of such Property-Related Services shall be on such terms as would generally be available in an arm’s-length transaction with a third party (provided that such third parties are generally in the business of providing such services) in the applicable market, although such compensation will not actually be determined through arm’s-length negotiation. IIM monitors the Property-Related Service Fees charged by each such affiliate to NYCRFI to ensure that they are reasonable relative to the fees charged by third parties by obtaining quotes or estimates (where practical) of the fees to be charged by third parties. In addition to the payment of Property-Related Service Fees, NYCRFI will also be required to reimburse IIM or its affiliates, as applicable, for their out-of-pocket expenses incurred in providing the Property Related Services. IIM may engage an independent consultant to determine whether the Property-Related Service Fees and other terms of IIM and its affiliates for Property-Related Services are reasonable.

Certain IIM affiliates may earn or share (and may in the future earn or share) in real estate brokerage commissions or other fees (“**Transaction Fees**”) paid by NYCRFI upon the closing of the sale of assets by NYCRFI as compensation for such real estate brokerage or other services.

Property-Related Service Fees and Transaction Fees may be substantial. Any Property-Related Service Fees, Transaction Fees and related expense reimbursements paid to IIM or its affiliates by NYCRFI or its underlying investments are in addition to the Management Fees paid to IIM and will not reduce the Management Fees charged to NYCRFI. See Item 8, below, for a discussion of the conflicts of interest involved in the retention of affiliated service providers.

In addition, Island NYCRF Directives may cause NYCRFI (or its subsidiaries) to engage IIM, ICG or their respective affiliates (i) to provide legal services related to the acquisition, disposition, financing, refinancing, ownership or management of potential or actual investments, or to designate legal professionals of Island NYCRF Directives or any of its affiliates to provide such services, in each case to be charged on an allocable basis and at a cost at least as favorable to NYCRFI as available in arm’s-length transactions with qualified third-party providers of such services and/or (ii) to provide accounting, accounting supervisory, valuation and similar services related to NYCRFI’s investments, or to prepare performance data for NYCRFI’s investments at the request of any of NYCRFI’s limited partners, or to designate one or more members of an accounting group associated with ICG or any of its affiliates to provide such services, in each case to be charged on

an allocable basis and at a cost at least as favorable to NYCRFI as available in arm's-length transactions with qualified third-party providers of such servicers, provided that all such services are for the direct benefit of NYCRFI or its limited partners and are not for the general operation of Island NYCRF Directives' (or of its affiliates') businesses.

IIM's strategy includes investing in properties through joint ventures with other real estate investors and/or operators. IIM believes that these joint venture partners enhance the firm's competitive advantage in the marketplace through their knowledge, skill and experience in identifying and executing property strategies that optimize value at the asset-level. Joint venture partners may charge leasing commissions, property management fee, and construction management fees. In addition, a joint venture arrangement typically provides for performance-based compensation (including a profits interest in the joint venture) for an operating partner as an incentive for enhanced performance. These arrangements present a conflict of interest because such compensation will ultimately be borne by NYCRFI and not IIM.

Island NYCRF Directives may cause NYCRFI to make short-term borrowings from Island NYCRF Directives or its affiliates to fund obligations prior to the receipt of capital contributions or pending retaining mortgage financing in respect of an investment, each of which borrowings may be evidenced by a promissory note and shall accrue interest for the benefit of Island NYCRF Directives or its affiliates at a rate up to 8% per annum and shall be repaid from capital contributions or other funds of NYCRFI (or its subsidiaries); provided, that NYCRFI (or its subsidiaries) must repay such borrowings within six months.

NYCRFI may, although it does not currently intend to, acquire certain "warehoused investments" (which would be identified in NYCRFI's Governing Documents) ("**Warehoused Investments**") from IIM or its affiliates on the terms set forth in the Governing Documents and such acquisitions will be deemed approved by the NYCRFI's limited partners. In connection with NYCRFI's acquisition (direct or indirect) of Warehoused Investments, Island NYCRF Directives may cause NYCRFI to (i) pay affiliates of IIM (the "**Warehousing Finance Affiliates**") an amount equal to (a) the aggregate cost of the Warehoused Investments to the Warehousing Finance Affiliates, including costs incurred in connection with the origination, closing and warehousing of the Warehoused Investments, plus (b) interest on the amount described in clause (x) at a rate equal to 8% per annum, calculated from the dates such costs were paid by the Warehousing Finance Affiliates to the dates the Warehousing Finance Affiliates receive the payment described herein, minus (c) distributions received by the Warehousing Finance Affiliates in respect of the Warehoused Investment prior to NYCRFI's acquisition of the Warehoused Investment; and (ii) assume responsibility for all obligations relating to any Warehoused Investment.

Island NYCRF Directives may cause NYCRFI to enter into placement, financial advisory or similar agreements with affiliates of Island NYCRF Directives. The fees payable by NYCRFI include NYCRFI's *pro rata* share of all amounts payable to a Placement Agent by or on behalf of NYCRFI in respect of the subscription by the limited partners for interests in NYCRFI and any related expenses ("**Placement Fees**"); provided that all Placement Fees due thereunder from NYCRFI shall reduce the Management Fee as described above.

Certain fees, costs and expenses, including, but not limited to, certain insurance premiums, research fees, technology expenses, and the cost of financial modeling software and services, may be incurred for the benefit of NYCRFI and ICG, its affiliates, or an Affiliated Investment Entity (defined in *Conflicts of Interest - Other Activities of ICG* below). Any such fees, costs and expenses

are allocated to NYCRFI and such Affiliated Investment Entity in a manner that is believed to be fair and equitable, subject to any requirements or restrictions provided in the respective governing documents of NYCRFI and applicable Affiliated Investment Entity regarding the allocation and payment of such fees, costs and expenses.

Information regarding NYCRFI's fees and expenses, and other important information regarding an investment in NYCRFI, are set forth in the Governing Documents and any other documents provided to NYCRFI 'eligible prospective investors.

D. REFUNDS FOR FEES CHARGED IN ADVANCE

Investors in NYCRFI agree to commit a certain amount of capital to NYCRFI before IIM provides any advisory services. Management Fees assessed by NYCRFI are generally deducted from NYCRFI's assets and are paid in advance. The terms applicable to NYCRFI do not contemplate repayment of fees to the extent that IIM's advisory services terminate prior to the end of the relevant payment period. Accordingly, if NYCRFI terminates IIM's services before they are provided for the applicable period, fees that have been paid in advance will not be pro-rated for such period and will not be returned to investors that paid those fees in advance.

E. SUPERVISED PERSONS

No Supervised Person (as defined in Item 11 below) of IIM accepts compensation for the sale of securities or other investment products.

IIM may retain Anubis Securities LLC ("**Anubis**"), an affiliate of IIM indirectly owned by ICG, in the future to serve as placement agent with respect to the offering of interests in NYCRFI. NYCRFI, IIM or an affiliate of IIM may pay Anubis a fee in the future for the sale of interests in NYCRFI. IIM or an affiliate of IIM may engage Anubis to serve as placement agent with respect to the offering of interests in any other pooled investment vehicle to be organized in the future and managed by IIM or an affiliate or for the solicitation of a client account to be managed by IIM or an affiliate, and may pay Anubis a fee in connection therewith.

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

Performance-based compensation will be paid to Island NYCRF Directives in the form of a "promote" interest in conformity with the Advisers Act, as follows: after the investors in NYCRFI receive distributions equal to their capital contributions and a preferred return thereon, Island NYCRF Directives will be entitled to receive a carried interest (or promote) in NYCRFI in an amount equal to (i) 50% until Island NYCRF Directives has received cumulative distributions equal to 20% of all distributions of Net Investment Revenues made pursuant to Section 5.02(B) and Section 5.02(C) of the Limited Partnership Agreement, and (ii) 20% thereafter. IIM will not directly receive any portion of Island NYCRF Directives' carried interest (or promote). Please refer to Item 6 for additional information regarding performance-based compensation.

Performance-based compensation arrangements may create an incentive for (i) IIM to recommend and approve investments that are riskier or more speculative than those that would be recommended or approved under a different fee arrangement and (ii) IIM to favor client accounts paying performance-based compensation at a higher rate (or a higher effective rate) over other accounts in the allocation of investment opportunities, either of which would create a conflict of interest for IIM and its affiliates. IIM and

NYCRFI's Investment Committee (to the extent applicable) consider such potential conflicts in recommending and approving such investment (see Item 13).

ITEM 7: TYPES OF CLIENTS

IIM provides investment advisory services to NYCRFI. The minimum capital commitment for each investor in NYCRFI is set forth in the Governing Documents and other documents provided to eligible prospective investors. Interests in NYCRFI are offered only to persons that are (i) "accredited investors," as defined in Regulation D under the Securities Act and (ii) either "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act and the rules thereunder. The investors in NYCRFI may include pension funds, high net worth individuals, insurance companies, investment banks, banks, trusts, endowments and other collective investment vehicles in which the foregoing invest.

Each investor in NYCRFI executes a subscription agreement in connection with its investment. An investor is not permitted to withdraw or redeem from NYCRFI prior to its dissolution, except as provided in the Governing Documents.

IIM and/or Island NYCRF Directives (either on its own behalf and/or on behalf of NYCRFI), without any act, approval or vote of any other investor in NYCRFI, has entered into (and in the future may enter into) letter agreements or other similar agreements (each, a "**Side Letter**") with one or more investors in NYCRFI that has the effect of establishing rights under, or altering or supplementing the terms of, the Governing Documents. Any rights established, or any terms of the Governing Document altered or supplemented, in a Side Letter with an investor in NYCRFI govern, notwithstanding any other provision of the Governing Documents. As a result of Side Letters, certain investors in NYCRFI may receive additional benefits that other NYCRFI investors will not receive, which may include different fee structures and other preferential economic rights (such as, rights to reduced or waived management fees or performance-based compensation), information and reporting rights, excuse or exclusion rights, waiver of certain confidentiality obligations, co-investment rights, certain rights or terms necessary in light of particular legal, regulatory or policy requirements of a particular investor, additional obligations and restrictions with respect to structuring particular investments in light of the legal and regulatory considerations applicable to a particular investor, veto rights and liquidity or transfer rights. Except as otherwise agreed to with an investor in NYCRFI, neither IIM nor Island NYCRF Directives will be required to notify any other investor in NYCRFI of the existence of any Side Letter or any of the rights, terms or provisions thereof, and neither IIM nor Island NYCRF Directives will be required to offer such additional or different rights or terms to any other NYCRFI investor. No investor in NYCRFI will have recourse against NYCRFI, Island NYCRF Directives, IIM or any of their respective affiliates in the event that one or more investors in NYCRFI receive additional or different rights or terms pursuant to any Side Letter. For more information regarding Side Letters please see Item 8.B. below.

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

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

A. METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

IIM provides investment advisory services with respect to equity and debt investments in commercial real estate assets, including multi-family, retail, office and hospitality properties.

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

With respect to real estate debt investments, IIM maintains proprietary financial models used to evaluate prospective investments and monitor existing holdings. The maintenance of these models is based, in part, on the ongoing surveillance and collection of credit performance statistics and updated collateral information from various affiliate and third-party sources, including issuers, broker-dealers, rating agencies, governmental agencies and data vendors. IIM will also generally conduct an in-depth, asset-level evaluation of each opportunity using proprietary quantitative and qualitative analyses that will assist in evaluating target investments.

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

B. MATERIAL RISKS

Investments by NYCRFI, or an investment in NYCRFI, is speculative and involves a high degree of risk.

Below is a summary of certain risks associated with investments by NYCRFI, and an investment in NYCRFI. NYCRFI, and investors in NYCRFI, should refer to the risk factors in the NYCRFI's offering documents, subscription agreement, Governing Documents or other documents provided to NYCRFI and investors in NYCRFI for a more complete description of the risks associated with investing or with an investment in NYCRFI. The risks described below and in the NYCRFI's offering documents, subscription agreement, Governing Documents or other documents provided to NYCRFI and investors in NYCRFI could adversely affect NYCRFI's (or an investor in NYCRFI's) business, the value of NYCRFI's (or an investor in NYCRFI's) investments and the return to NYCRFI or an investor in NYCRFI. No guarantee or representation is made that NYCRFI or an investor in NYCRFI will achieve its or their investment objectives, goals or targeted returns, or that NYCRFI or an investor in NYCRFI, will receive a return of its capital. There is no certainty of return with respect to any such investment and NYCRFI or an investor in NYCRFI should be able to withstand a total loss of its investment. The following discussion does not purport to be an exhaustive explanation of all of the risks and significant considerations involved, and each investor in NYCRFI should consult with its own advisors.

RISKS RELATED TO REAL ESTATE INVESTMENTS

General

The performance of NYCRFI's real estate and real estate-related investments will be significantly affected by fluctuations in the value of the underlying properties and the cash flows generated by those properties. If the underlying properties do not generate revenues sufficient to meet operating expenses, the NYCRFI's cash flow and the ability to make distributions to investors in NYCRFI

will be adversely affected. The factors affecting the cash flows generated by the underlying properties and the values of those properties include:

- national and local economic conditions;
- changes in supply of, and demand for, competing properties in an area (including the consequences of overbuilding);
- changes in real property tax rates;
- changes in interest rates and the availability of mortgage funds (including changes that render the sale or refinancing of properties difficult or impracticable);
- financial resources of tenants;
- changes in building, environmental and other laws or government regulations;
- quality of management and maintenance of the properties; and
- changes in tax policies and legislation, including, in particular, tax rules in jurisdictions in which investments are made or fund entities are organized.

Real Estate Market Conditions

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

Declines in Real Estate Values

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

In the case of real estate debt investments (including investments in CMBS and CRE-CDO tranches), adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. In addition, loans may become

non-performing for a wide variety of reasons and may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, replacement “take-out” financing will not be available, which could ultimately impact the value of the related investments.

Type and Use of Properties; Alternative Use of Properties

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

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

Competition

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

Availability of Suitable Investments

Investors will be relying on the ability of IIM and its affiliates to identify, acquire and manage investments using the proceeds of NYCRFI’s offering. Although IIM and its affiliates have been

successful in locating investments of the type suitable for NYCRFI in the past, there can be no assurance that it will be able to identify a sufficient number of suitable investment opportunities for NYCRFI, or that NYCRFI will be successful in acquiring a sufficient number of suitable investments. As a consequence, the aggregate returns of NYCRFI may be substantially adversely affected by the unfavorable performance of even a single investment.

Costs of Compliance with ADA and Similar Laws

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

Uninsured Losses

NYCRFI intends to maintain comprehensive insurance on each of its investments in real property, and require that comprehensive insurance on each of the properties underlying its debt investments be acquired and maintained, including general liability, fire, extended coverage and rental loss insurance, with reputable carriers and with policy specifications and insured limits that Island NYCRI Directives believes are adequate and appropriate under the circumstances, given relative risk of loss, the cost of such coverage and industry practice. If any of the applicable borrowers fails to comply with these requirements and an uninsured loss occurs, the consequences may be adverse for NYCRFI. Additionally, there are certain types of losses, generally of a catastrophic nature, including, without limitation, wars, natural disasters, terrorist attacks and other similar events, that may be uninsurable or insurable only on commercially unrealistic terms. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance for a property. As a result, some or all of NYCRFI’s investments in real property, or properties that collateralize NYCRFI’s debt investments, may not be insured against terrorism. Even if insurance is in place and an insured loss is paid, inflation, changes in building codes and ordinances, environmental considerations and other factors may make it infeasible to use the insurance proceeds to repair or replace a property if it is damaged or destroyed. Should an uninsured loss or a loss in excess of insured limits occur with respect to one or more of the properties underlying NYCRFI’s investments, NYCRFI could lose the value of those investments, as well as the anticipated future revenue from those investments and, in the case of debt which is with recourse to NYCRFI, NYCRFI would remain obligated for any mortgage debt or other financial obligations related to such investments. It is also possible that the lack of available insurance coverage for such risks in the future may adversely affect NYCRFI’s ability to obtain conventional financing for commercial properties, which in turn may adversely affect the liquidation proceeds that may be realized following a default on any commercial loan. Any such loss could adversely affect the financial condition, results of operations and cash flow of NYCRFI.

Capital Expenditures

Under many leases, the owner of the property retains certain obligations with respect to the property, including, among other things, the responsibility for maintenance and repair of the property, the provision of adequate parking, the responsibility for maintenance of common areas, the responsibility for capital improvements such as roof replacement and major structural improvements and compliance with other affirmative covenants in the lease. The expenditure of any sums in connection therewith beyond those budgeted for by NYCRFI will reduce the cash available for distribution and may require NYCRFI to fund deficits resulting from the operations of a property. No assurance can be given that NYCRFI will have funds available to make such repairs or improvements. If NYCRFI were to fail to meet these obligations, then the applicable tenant may abate rent or terminate the applicable lease, which may result in a loss of capital invested in, and anticipated profits from, the property to NYCRFI. In addition, significant capital expenditure projects, regardless of whether or not they are ultimately successful, typically require a substantial portion of management's time and attention, which could divert the time and attention of IIM from the day-to-day obligations to NYCRFI and, in turn, impair NYCRFI's financial condition and operating results.

Environmental Risks and Health Risks

The value of NYCRFI's investments could be impaired if a property (or a property securing the loan underlying an investment) sustains losses related to an environmental claim. NYCRFI could face meaningful risk of loss from lawsuits related to environmental claims based on environmental problems associated with real estate investments or the properties underlying an investment. NYCRFI may be liable pursuant to environmental claims under various federal, state and local laws, ordinances and regulations, as well as common law principles (collectively, "**Environmental Laws**") for the costs of removal or remediation of certain hazardous or toxic substances on or in a property, and subject NYCRFI to claims or liability for the costs of removal or remediation of hazardous substances that are released at, in, on, under or from the property. The cost of any required remediation and the owner's liability therefore as to any property generally are not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. In addition to claims for cleanup costs, the presence of hazardous substances on, or the release of hazardous substances from, a property or a facility and persons who arranged for off-site disposal activities could result in a claim by a private party for personal injury or property damage or could result in a claim from a governmental agency for other damages.

In addition, certain cooling towers, evaporative condensers, swimming pools, hot tubs, and other complex water systems have recently been linked to outbreaks of Legionnaires' Disease. To the extent an outbreak of Legionnaires' Disease is attributable to NYCRFI's property, NYCRFI could be subject to claims or liability for such an outbreak, which may be significant in the aggregate.

Liability under such Environmental Laws can be imposed on the owner or the operator of real property or a facility without regard to fault or even knowledge of the release of hazardous substances and other regulated materials on, at, in, under or from the property or facility. Any environmental studies that may be conducted with respect to properties before NYCRFI makes the investment cannot guarantee that NYCRFI will be aware of all contamination at those properties and the subsequent costs of removal, management or remediation, either because such conditions were latent or because of changes in laws and regulations. The presence of hazardous substances in amounts requiring response action or the failure to undertake necessary remediation may

adversely affect NYCRFI's ability to use or sell real estate or borrow money using such real estate as collateral, which could have an adverse effect on NYCRFI's return from such investment.

Risks Associated with Lead Paint

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential tenants or purchasers and to real estate brokers any known presence of lead paint and lead paint hazards and allows for treble damages, fines and attorneys' fees for failure to so notify. In addition, NYCRFI may be held liable under state laws for any injuries caused by ingestion of lead-based paint or dust or particles thereof by children or others living in or using the properties. Under some state laws, the liability is without regard to fault and may also require NYCRFI to remediate soil and groundwater contaminated with lead in and around the subject housing.

Risks Associated with Mold and Standing Water

Mold is a fungus that may grow within buildings if sufficient moisture is present, for instance as a result of leaking roofs, burst pipes, flooding or poor insulation in bathrooms. Mold is allergenic to certain people and also is capable of producing toxins that may be harmful to people. Mold also can injure other living things and can damage property. It is customary practice to promptly remediate water damage that can result in mold, and any damage from mold growth, to prevent personal injury and property damage and unsafe living conditions. If mold grows in a property that NYCRFI owns or operates, NYCRFI may be liable for any personal injury and property damage that results. Under state or local laws pertaining to health, housing, building standards and consumer protection: (i) NYCRFI may be required to remediate mold and may be fined due to the presence of mold in a building; (ii) the buildings' tenants may be evicted; (iii) NYCRFI may be liable to others for rent during the period when mold was present in the building; (iv) NYCRFI may not be entitled to rent when mold is present; and (v) the building may be condemned and/or razed. Mold remediation may be difficult and expensive. Moreover, it is difficult and expensive to obtain insurance to protect against liability, remediation costs and other damages pertaining to mold, and there may be no insurance coverage under existing policies. State and federal legislation pertaining to mold, including its remediation and disclosure, may be enacted at any point during NYCRFI's holding period of an investment, and it is unknown what economic impact such legislation could have on building owners and operators.

Leasing Delays and Tenant Bankruptcies

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

large tenant, material losses to NYCRFI, and could harm NYCRFI's ability to make distributions to its investors or otherwise operate its business.

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

Significant Tenant Ceasing to Operate at a Retail Property

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

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

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

Competition from Alternative Retail Distribution Channels

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

Investments in Net Lease Properties May Generate Losses

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

Risks of Acquisition, Development and Redevelopment Activities

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

- acquisition, redevelopment and development opportunities explored by NYCRFI may be abandoned and, as a result, NYCRFI may fail to recover expenses already incurred in connection with exploring such opportunities;
- acquisition, development and redevelopment costs for a property, including, without limitation, materials, labor or other expenses, may exceed original estimates, possibly making the property uneconomical;
- zoning, land-use, building, occupancy and other required governmental permits and authorizations may be difficult or impossible to obtain, leading to delays in and/or abandonment of all or a portion of the acquisition, development or redevelopment of a property;

- construction and lease-up may not be completed on schedule, resulting in increased debt service and development or redevelopment costs;
- leasing costs and tenant improvement costs may exceed expectations and, therefore, adversely affect the operating performance of a property; and
- construction and permanent financing may not be available on favorable terms.

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

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

RISKS RELATED TO INVESTMENTS

Nature of Investments

Investments by NYCRFI, or investments in NYCRFI, are speculative and generally require a long-term commitment with no certainty of return.

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

Distressed and Underperforming Assets

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

Investments in borrowers or issuers that have become financially distressed involve significantly greater risks than investments in non-distressed borrowers or issuers. The level of analytical sophistication, both financial and legal, necessary for successful financings to companies or assets experiencing significant business and financial difficulties is unusually high.

Troubled companies and assets require active monitoring and may, at times, require participation in the borrower's business strategy or in reorganization proceedings by NYCRFI. To the extent that NYCRFI becomes involved in such proceedings, NYCRFI may have a more active participation in the affairs of its investments than that generally assumed by an investor. In addition, involvement by NYCRFI in reorganization proceedings could result in the imposition of restrictions limiting NYCRFI's ability to liquidate its position.

Real Estate Debt Investments

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

NYCRFI's investments may include interests in commercial mortgage loans. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than residential mortgage loans on owner-occupied single-family residences. The ability of a borrower to repay a loan secured by commercial property primarily depends upon the successful operation and the operating income of that property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, control operating expenses and comply with applicable zoning and other laws), rather than depending upon the existence of independent income or assets of the borrower. If the net operating income of the property deteriorates, the borrower's ability to repay the loan may be impaired. Net operating income of a commercial property can be affected by, among other things: tenant mix; success of tenant businesses; property management decisions; property location and condition; competition from comparable types of properties;

changes in laws that increase operating expenses or limit rents that may be charged; any need to address environmental contamination at the property or the occurrence of any uninsured casualty at the property; changes in national, regional or local economic conditions and/or specific industry segments; declines in regional or local real estate values; declines in regional or local rental or occupancy rates; increases in interest rates; real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; and acts of God, terrorist attacks, social unrest and civil disturbances. Most commercial mortgage loans provide recourse only to the mortgaged property, and not against the borrower's other assets or personal guarantees, other than customary non-recourse carve-outs.

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

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

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

As part of its investment program, NYCRFI may invest in fixed-rate and/or floating-rate loans. Floating rate loan investments would expose NYCRFI to the risk of lower cash flow in the event that interest rates decrease from the date of investment. Fixed rate loan investments expose NYCRFI to the risk of value deterioration in the event of interest rate increases. NYCRFI's debt investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by NYCRFI earlier than expected, resulting in a lower return to NYCRFI than projected. If market interest rates decline, it is likely that borrowers will seek to repay their loans prior to stated maturity in order to refinance at lower rates. If that happens, then, except as protected

by any yield maintenance provisions, NYCRFI will lose the benefit of the above-market interest rate payments it otherwise would receive on the repaid loans. In addition, certain of the mortgage loans in which NYCRFI invests may be structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time.

Moreover, in certain situations, because IIM, Island NYCRF Directives or an affiliate thereof may, in the exercise of remedies or rights under loan documents, obtain contractual rights to participate in or to influence the management of properties by borrowers, the likelihood is increased that a borrower may claim that NYCRFI interfered with the borrower's business, acted in bad faith in exercising its management rights or otherwise acted in a manner giving rise to a claim for lender liability. The exercise of rights or remedies may not be led or controlled by IIM or Island NYCRF Directives, but may be led or controlled by a holder of a different debt position that may have interests that are in conflict with the interests of NYCRFI. As a lender, NYCRFI may also be subject to penalties for violations of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest.

In the event of default and the exhaustion of any equity support, reserve fund or letter of credit support, NYCRFI might not be able to recover all of its investment in the debt obligations purchased. NYCRFI's investments in loans may involve workout negotiations, restructuring and the possibility of foreclosure. Even if a restructuring were successfully accomplished, however, there exist the risks of a substantial reduction in the interest rate and a substantial write-down of the principal of such loans. It is possible that Island NYCRF Directives may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by NYCRFI.

Enforcement of Rights against Borrower following Default

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

Participation Interests

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

Bankruptcy Considerations

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

Subordinate Debt

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

Debt securities and investments of the type in which NYCRFI may invest are also subject to other risks arising out of the laws governing creditors' rights, including (i) the possible invalidation of an investment transaction (e.g., a mortgage lien or a payment made to a creditor) as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) the possible assertion of so-called "lender liability" claims by the issuer of the obligations and (iii) environmental liabilities that may arise with respect to the collateral securing the obligations. In many cases, IIM's management of NYCRFI's investments and its remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of the senior lenders and contractual inter-creditor provisions. Accordingly, there can be no assurance that NYCRFI's rate of return objectives will be realized.

Mezzanine Loans

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

Moreover, a mezzanine loan may become unsecured as a result of a foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, NYCRFI may not have full recourse to the assets of the property-owning entity, or the assets of the entity may not be sufficient to satisfy NYCRFI's mezzanine loan. If a borrower defaults on NYCRFI's mezzanine loan or debt senior to NYCRFI's mezzanine loan, or in the event of a borrower bankruptcy, NYCRFI's mezzanine loan will be satisfied only after the senior debt is paid in full. As a result, NYCRFI may not recover some or all of its mezzanine loan investment, which could result in losses.

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

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

Commercial Mortgage Backed Securities

While not a primary purpose of NYCRFI, NYCRFI's portfolio may also include exposure to commercial mortgage-backed securities ("CMBS"), which are securities secured by a single commercial mortgage loan or a pool of commercial mortgage loans (including certificates of participation in such loans). Any CMBS potentially being considered as an investment by NYCRFI

generally would be securities backed by obligations (including certificates of participation in obligations) that will be principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as retail space, office buildings, hotels and other hospitality assets, and industrial properties. Investing in CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations, including the risk of principal prepayment, the risk of investing in real estate, lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. The exercise of remedies and successful realization of liquidation proceeds relating to CMBS may be highly dependent on the performance of third parties not under NYCRFI's control.

Some investments in CMBS may be subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured and/or subject to a "first loss" subordinate holder position. Investments in such subordinate CMBS securities have a higher risk of such loss than investments in more senior securities. In the event that IIM underestimates the pool losses relative to the price NYCRFI pays for a particular CMBS investment, NYCRFI may experience losses with respect to such investment.

Unrated Investments

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

Private Companies

NYCRFI may invest in property management companies or other real estate related businesses. Private companies are not subject to the same disclosure and reporting requirements that are generally applicable to public companies. There can be no guarantee that the small number of individuals on which a private company relies will continue to be employed by such company once NYCRFI has invested in it. Although IIM will monitor the performance of each investment, NYCRFI will necessarily rely on the management teams of the individual portfolio companies in which NYCRFI invests for day-to-day management.

NYCRFI may designate directors to serve on the board of directors of a portfolio company. The exercise of control over a portfolio company may impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations and other types of liabilities, which could have a material adverse effect on the performance of NYCRFI.

NYCRFI also may hold minority interests in portfolio companies alongside one or more other investors and may not be able to designate directors to serve on the board of directors of a portfolio

company. Although IIM will aim to negotiate shareholder rights that give NYCRFI protections and visibility over the direction of the portfolio company, certain major decisions will require the consent of other investors, thereby lessening NYCRFI's control and, therefore, IIM's ability to protect the position of NYCRFI in such company.

Limited Liquidity of Real Estate Investments

NYCRFI's investments generally will be illiquid. Dispositions of NYCRFI's investments also may be subject to contractually imposed limitations on transfer or other restrictions that could interfere with the sale of NYCRFI's investments or adversely affect the terms that could be obtained upon any sale. This illiquidity may limit the ability of NYCRFI to change the composition of its portfolio promptly in response to changes in economic or other conditions and limit near-term cash flow available for distribution to its investors. The lack of a liquid market for NYCRFI's debt investments also means that if NYCRFI for any reason sells its debt instruments before they are repaid by the borrower, NYCRFI may receive a low price and, as a result, may realize a loss on its investment in those debt instruments.

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

Valuation Risks

Because Island NYCRF Directives does not expect there to be any liquid market, or only a limited liquid market, for NYCRFI's investments, the fair value of NYCRFI's investments may not be readily determinable and IIM may not be able to dispose of the investment at fair value. NYCRFI will value its investments periodically at fair value as determined by IIM or Island NYCRF Directives. The valuations used by IIM or Island NYCRF Directives for a substantial portion of NYCRFI's investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair value pricing of NYCRFI's investments include discounted cash flows, prevailing market conditions with respect to the location of a property investment, similar property sales, and other relevant factors. Because such valuations are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Therefore, Island NYCRF Directives' determination of fair value may differ materially from the actual results obtainable in an arm's length sale of such investments to a third party.

Diversification Risk

Although NYCRFI intends to acquire an investment portfolio that is diversified across real estate asset classes within New York City, there is no assurance as to the degree of diversification that will actually be achieved in NYCRFI's portfolio of investments. NYCRFI may make only a limited number of investments and, as a consequence, the aggregate return of NYCRFI may be substantially adversely affected by the unfavorable performance of even a single investment. The

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

Geographic Concentration

NYCRFI's investments are expected to be located exclusively in New York City and heavily concentrated in the borough of Manhattan. Due to the fact that NYCRFI's investments will be geographically concentrated in one market, NYCRFI's performance will be adversely affected if IIM's predictions regarding the New York City real estate market prove to be incorrect.

Portfolio Acquisition Risks

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

Multi-Step Transactions

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

Investments through Partnerships and Joint Ventures

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

Controlling Person Liability

NYCRFI may effect an investment through the buyout or acquisition of controlling interests in a real estate company. The acquisition of a company has certain risks over and above the risks associated with the purchase of properties directly. In addition, the exercise of control over an entity

can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, NYCRFI might suffer a significant loss.

Cybersecurity and Identity Theft

ICG's technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although ICG has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, ICG and/or NYCRFI may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in ICG's and/or NYCRFI's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm ICG's and/or NYCRFI's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance. ICG maintains a cyber liability insurance policy that covers, among other things, media content, security and privacy liability, regulatory action liability, network interruption, event management and cyber extortion. However, the coverage may not be adequate to compensate for all losses that may occur and no assurance can be given that such insurance will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more claims, or that ICG's insurer will not deny or attempt to deny coverage as to any future claim.

Real Estate Investment Trusts ("REITs")

Because NYCRFI expects to utilize one or more REIT Subs in its investment program, NYCRFI may also be subject to certain risks associated with investments in REITs. A REIT may be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. Furthermore, a REIT is dependent upon specialized management skills, has limited diversification and is, therefore, subject to risks inherent in financing a limited number of projects. A REIT depends generally on its ability to generate cash flow to make distributions to shareholders, and certain REITs have self-liquidation provisions by which mortgages held may be paid in full and distributions of capital returns may be made at any time. In addition, the performance of a REIT may be affected by changes in the tax laws or by its failure to qualify as a REIT for U.S. federal income tax purposes.

ERISA

There is the possibility that certain investments which IIM might prefer to make might have to be rejected or deferred, in light of, if applicable, NYCRFI's efforts to comply with the "venture capital operating company" or "real estate operating company" rules. It is also possible that timing of the liquidation of investments might not be optimal, in light of, if applicable, NYCRFI's efforts to comply with the "venture capital operating company" or "real estate operating company" rules.

Investment Portfolio Financing Risks

Inability to Obtain Leverage. NYCRFI's returns are dependent upon its ability to grow its portfolio of invested assets through the use of leverage. NYCRFI's ability to obtain the leverage necessary on attractive terms will ultimately depend upon the market's availability and NYCRFI's ability to maintain interest coverage ratios meeting market underwriting standards, any of which terms will vary according to each lender's assessment of NYCRFI's (or its underlying subsidiary's) creditworthiness and the terms of the borrowings. The failure to obtain leverage at the contemplated levels, or to obtain leverage on attractive terms, could have a material adverse effect on NYCRFI.

Leverage of Investments. NYCRFI expects to leverage its investments with non-recourse debt financing. NYCRFI may also obtain recourse debt financing in select situations such as a completion guarantee for development projects. In addition, NYCRFI may have indebtedness, including under a Subscription Facility (as defined below) that is directly or indirectly collateralized by multiple investments. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. In particular, indebtedness that is secured by multiple investments may cause a loss on any one investment to result in losses on other investments. Additionally, use of leverage on any particular investment will increase the exposure of such investment to adverse economic factors such as rising interest rates, severe economic downturns or deterioration in the condition of the real estate investment or its market. In the event a real estate investment is unable to generate sufficient cash flow to meet its principal and interest payments on its indebtedness, the value of NYCRFI's equity investment in such real estate investment could be significantly reduced or even eliminated. In addition, if a property is mortgaged to secure payment of indebtedness and NYCRFI is unable to meet its mortgage payments, the property could be foreclosed upon or otherwise transferred to the mortgagee, with a consequent loss of income and asset value to NYCRFI. In addition, NYCRFI may have indebtedness that is directly or indirectly collateralized by multiple investments. Indebtedness that is secured by multiple investments may cause a loss on any one investment to result in losses on other investments.

Risks Involved in NYCRFI's Use of a Subscription Facility. NYCRFI may utilize indebtedness that is secured by capital commitments from certain investors in NYCRFI (a "**Subscription Facility**"). Such borrowings are generally secured by a pledge or other collateralization of the obligations of NYCRFI's investors to make capital contributions to NYCRFI. This may limit the ability of NYCRFI's investors to use their interests in NYCRFI as collateral for other indebtedness. In addition, the inability of NYCRFI to repay borrowings under a credit facility secured by unpaid capital obligations could enable a lender to "step into" the place of Island NYC RF Directives and take action against any investor to the extent of its then unpaid capital commitment to NYCRFI. In addition, in the event that NYCRFI does not have sufficient cash to re-pay the subscription facility debt and certain investors in NYCRFI fail to honor their capital commitments, investors whose capital commitments have been pledged or otherwise collateralized may be called upon to fund their entire capital commitment to repay indebtedness, which may result in a particular investor's payments exceeding its pro rata share of such indebtedness. IIM's ability to generate attractive investment returns for investors in NYCRFI may be materially and adversely affected by the use of such subscription facilities.

Financing Risks of Acquisition, Redevelopment and Development Activities. The failure to obtain necessary debt and equity financing on favorable terms could have a material adverse effect on NYCRFI's ability to acquire, redevelop and develop investments. Moreover, in the event that the

cost of debt or equity financing for new acquisitions, redevelopment and development increases, the increased cost of such financing may result in a lower margin of profit on NYCRFI's investments than initially contemplated. If market conditions deteriorate, the financial condition of NYCRFI may be materially adversely affected.

Lenders May Require NYCRFI to Enter Into Restrictive Covenants Relating to its Operations. In connection with obtaining financing, a bank or other lender could impose restrictions on NYCRFI affecting its ability to incur additional debt and its distribution and operating policies. Loan documents entered into by NYCRFI may contain negative covenants limiting NYCRFI's ability to, among other things, further mortgage NYCRFI's properties, discontinue insurance coverage or replace IIM as the investment manager.

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

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

Recourse to Assets. All of NYCRFI's assets are available to satisfy all liabilities and other obligations of NYCRFI including certain guarantees that Island NYCRF Directives may make. If NYCRFI becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to NYCRFI's assets generally and may not be limited to any particular asset, such as the asset giving rise to the liability. Accordingly, investors in NYCRFI could find their interests in NYCRFI's assets adversely affected by a liability arising out of an investment in which they did not participate because, for example, they were excluded or excused by Island NYCRF Directives.

Risks of Leverage. The amount of borrowings by NYCRFI and its aggregate leverage outstanding, and/or the leverage on NYCRFI's investments, at any time may be large in relation to its capital and available capital commitments. Although the use of leverage may enhance returns, it will also substantially increase the risk of loss. Because many borrowings may be cross-collateralized, it is likely that NYCRFI could experience concurrent forced sales of multiple financed assets, accompanied by attendant losses upon lender liquidations. The amount of borrowings by NYCRFI and its aggregate leverage outstanding, and/or the leverage on NYCRFI's investments, could result in the complete loss of the equity value in NYCRFI if NYCRFI is required to satisfy indebtedness in excess of NYCRFI's equity in its aggregate assets.

Rising Interest Rates on Borrowings Would Increase Costs. NYCRFI may incur variable rate indebtedness under credit facilities. In such a case, an increase in interest rates would increase NYCRFI's interest costs, thereby, among other things, decreasing the amount of available funds for distribution to its investors. Increases in interest rates also may cause a reduction in the value of NYCRFI's investments. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of NYCRFI. NYCRFI may employ a hedging strategy to limit the effects of changes in interest rates on its operations, including engaging in interest rate swaps, caps, floors and other interest rate exchange contracts. There is a cost associated with the use of these types of derivatives to hedge NYCRFI's assets and liabilities. Moreover, there is no perfect hedge for any investment, and a hedge may not perform its intended use of offsetting losses on an investment. With respect to certain potential hedge instruments, NYCRFI is exposed to the risk that the counterparty with which NYCRFI trades may cease making markets and quoting prices in such instruments, which may render NYCRFI unable to enter into an offsetting transaction with respect to an open position. Consequently, the profitability of NYCRFI may be adversely affected during any period as a result of changing interest rates.

Counterparty Risk. NYCRFI will be subject to the risk of the inability of a lender or swap counterparty to perform with respect to a loan or derivative transaction, whether due to insolvency, bankruptcy or other causes, which could subject NYCRFI to substantial losses.

Risks Associated with NYCRFI's Real Estate Investments Located in New York City

Economic and Regulatory Developments in New York City. Any unanticipated economic or regulatory developments in New York City or parts thereof could negatively affect NYCRFI's results of operations, financial condition, cash flow and ability to make distributions to NYCRFI's investors. NYCRFI's business is dependent on the condition of the economy in New York City and the views of potential tenants regarding living and working in New York City, which may expose NYCRFI to greater economic risks than if NYCRFI owned a more geographically diverse portfolio.

Competition in New York City. The leasing of real estate in New York City is highly competitive. The principal means of competition are rent charged, location, services provided and the nature and condition of the premises to be leased. NYCRFI will directly compete with all lessors and developers of similar space in the areas in which NYCRFI's real estate investments are located as well as properties in other submarkets. NYCRFI may also see competition from lessors that convert traditional office space to co-working office availabilities. Demand for retail space may be impacted by the bankruptcy of retail companies and a general trend toward consolidation in the retail industry. Demand also may be impacted by the influence of internet retailing which could adversely affect the ability of NYCRFI to attract and retain tenants, which could (i) reduce rents payable to NYCRFI, (ii) reduce NYCRFI's ability to attract and retain tenants at NYCRFI's properties and (iii) lead to increased vacancy rates at NYCRFI's properties, any of which could materially and adversely affect NYCRFI.

NYCRFI's real estate investments may be concentrated in highly developed areas of Manhattan. Manhattan is the largest office market in the United States. The number of competitive office properties in the markets in which NYCRFI's properties are located (which may be newer or better located than NYCRFI's properties) could have a material adverse effect on NYCRFI's ability to lease office space at NYCRFI's properties, and on the effective rents NYCRFI is able to charge.

Continuing Threat of a Terrorist Event in New York City. The continuing threat of a terrorist event in New York City may materially and adversely affect NYCRFI's properties, their value and NYCRFI's ability to generate cash flow. There may be a decrease in demand for space in New York City because it is considered at risk for a future terrorist event, and this decrease may reduce NYCRFI's revenues from property rentals. In the aftermath of a terrorist event, tenants in New York City may choose to relocate their businesses to less populated, lower-profile areas of the United States that are not as likely to be targets of future terrorist activity. This in turn could trigger a decrease in the demand for space in New York City, which could increase vacancies in NYCRFI's properties and force NYCRFI to lease its properties on less favorable terms. Further, certain of NYCRFI's properties may be considered to be susceptible to increased risks of a future terrorist event due to the high-profile nature of the property. In addition, a terrorist event could cause insurance premiums at certain of NYCRFI's properties to increase significantly. As a result, the value of NYCRFI's properties and the level of NYCRFI's revenues could materially decline.

Changes in Rent Control or Rent Stabilization. NYCRFI will seek to invest in real estate properties that are subject to rent control and rent stabilization regulations. New York City's rent control or rent stabilization laws and regulations are subject to change and the city, state or federal government could take other actions which could impact the value of NYCRFI's investments. Depending on the extent and terms of future enactments of rent control or rent stabilization laws and regulations in New York City such future enactments could have a significant adverse impact on NYCRFI's results of operations and the value of NYCRFI's real estate investments.

For example, on June 14, 2019, the New York State Senate passed the Housing Stability and Tenant Protection Act of 2019 (the "**HSTP Act**"), which, among other things, limits the ability of landlords to increase rents in rent stabilized apartments in New York State at the time of lease renewal and after a vacancy. The HSTP Act also limits potential rent increases for major capital improvements and for individual apartment improvements in such rent stabilized apartments. In addition, under current laws and regulations, eviction proceedings for delinquent residents are costly and time-consuming, especially in markets like New York City where housing courts are backlogged.

NYCRFI intends to invest in multifamily mortgage loans, securities, and other investments affected by rent control or rent stabilization laws, and other regulations or ordinances. While it is too early to measure the full impact of the legislation, in total, it generally limits a landlord's ability to increase rents on rent regulated apartments and makes it more difficult to convert rent regulated apartments to market rate apartments. NYCRFI intends to take advantage of the market dislocation resulting from this regulatory environment. If IIM's predictions regarding the impact of such legislation prove to be incorrect, or if such regulations and ordinances are revised, then the performance of NYCRFI may be adversely affected.

*Risks Related to New York City's Building Emissions Law ("**Local Law 97**").* New York City's Local Law 97 establishes building emission requirements for most commercial and residential properties that are 25,000 gross square feet or larger, including condominiums and co-ops (or two or more buildings that aggregate to more than 50,000 gross square feet under certain circumstances). Each property covered under Local Law 97 will be subject to an emissions limit that caps the amount of greenhouse gas it is permitted to emit each year. To meet the required targets, property owners will need to tailor their properties to become more energy-efficient by taking measures such as fuel switching, installing insulation, installing new windows, upgrading boilers and other capital improvements.

Starting in 2025, the owner of any property covered under Local Law 97 will be required to file an annual report regarding the property's greenhouse gas emissions during the prior calendar year and indicate whether or not the emissions exceeded the applicable limits. Properties that fail to comply with the law's requirements will incur fines, which could be material. Moreover, there will be criminal penalties for knowingly making materially false statements in emissions reports and civil penalties for failure to file the required reports. Local Law 97 may impose meaningful burdens and restrictions on NYCRFI. The ultimate cost to NYCRFI of compliance with Local Law 97, and any other emissions regulations that are passed in the future, is difficult to estimate and may be substantial, which could have a material adverse effect on the performance of NYCRFI.

Risks Related to New York City's Indoor Allergen Law ("Local Law 55"). New York City's Local Law 55 requires all multiple-dwelling property owners in New York City to investigate and remove all indoor health hazards, such as mold, other allergens, rodents and cockroaches. In order to comply with the law, property owners must undertake safe and successful procedures to ensure that their properties remain free of indoor health hazards. As of January 19, 2019, property owners must perform annual inspections of their units for indoor allergen hazards, such as pests (e.g., rats, cockroaches, mice) and mold. Local Law 55 contains several other requirements for multiple-dwelling property owners including, but not limited to, annual inspections of each unit and common areas, delivery of annual notices and copies of New York City Department of Health and Mental Hygiene pamphlet to current and prospective tenants, integrated pest management to address infestations, remediation of mold, pest, and underlying defects and thorough cleaning of carpeting or furniture before a new tenant moves in. Compliance with Local Law 55 and similar legislation may have a meaningful economic impact on property owners and therefore may impose a substantial burden on NYCRFI.

Hotel Industry in New York City. Certain of NYCRFI's real estate investments may be hotels located in New York City that are subject to all the risks of the hotel industry, particularly the hotel industry in the New York City area, which may include:

- increases in supply of hotel rooms that exceed increases in demand;
- increases in energy costs and other travel expenses that reduce business and leisure travel;
- reduced business and leisure travel due to continued geo-political uncertainty, including terrorism, or for other reasons;
- reduced business and leisure travel from other countries to the United States due to the strength of the U.S. Dollar as compared to the currencies of other countries;
- adverse effects of declines in general and local economic activity;
- increased competition from other existing hotels in New York City and with alternative lodging companies, such as Airbnb;
- new hotels entering New York City, which may adversely affect the occupancy levels and average daily rates of NYCRFI's lodging properties;

- an increase in internet bookings, which may enable internet booking intermediaries to obtain higher commissions, reduced room rates or other significant contract concessions from NYCRFI's third-party hotel property manager;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- unavailability of labor;
- changes in, and the related costs of compliance with, governmental laws and regulations, fiscal policies and zoning ordinances;
- inability to adapt to dominant trends in the hotel industry or introduce new concepts and products that take advantage of opportunities created by changing consumer spending patterns and demographics; and
- adverse effects of international, national, regional and local economic and market conditions.

In addition, the hotel industry may be adversely affected by factors outside of NYCRFI's control, such as extreme weather conditions or natural disasters, terrorist attacks or alerts, outbreaks of contagious diseases, airline strikes, economic factors and other considerations affecting travel.

New York City Retail Environment. Certain of NYCRFI's real estate investments may be New York City street retail properties. As such, these properties are affected by the general and New York City retail environments, including the level of consumer spending and consumer confidence, change in relative strengths of world currencies, the threat of terrorism, increasing competition from retailers, outlet malls, retail websites and catalog companies and the impact of technological change upon the retail environment generally. These factors could adversely affect the financial condition of NYCRFI's retail tenants, or result in the bankruptcy of such tenants, and the willingness of retailers to lease space in NYCRFI's retail locations.

UNCONSUMMATED INVESTMENTS

Prior to making an investment, IIM will typically incur expenses in order to conduct appropriate due diligence related to such investment. Such expenses may include (among other things), legal fees, fees of consultants, and employee travel, meals and accommodations. The expenses incurred in connection with an unconsummated investment will be charged to NYCRFI or among or Affiliated Investment Entities (defined in *Conflicts of Interest - Other Activities of ICG* below) that were expected, or would have been eligible, to participate in such investment opportunity, in proportion to their expected participation percentages, or if their participating percentages had not yet been determined, the pro rata based on the amount available for investment by NYCRFI or each eligible Affiliated Investment Entities (unless another third party is contractually obligated to reimburse IIM or an affiliate for such amounts), which could result in NYCRFI paying a larger percentage of such expenses.

In certain cases, a co-investment vehicle may be formed in connection with an investment opportunity that is not consummated and in such cases the aforementioned expenses will be shared between NYCRFI and the co-investment vehicle or proposed co-investor that was expected to

participate in such investment opportunity, in proportion to their expected participation percentages (unless there is some other agreed-upon arrangement for the reimbursement of such amounts). If a potential co-investment transaction is not consummated and no such co-investment vehicle has been formed, the full amount of any expenses relating to such potential but not consummated co-investment transaction will be borne by NYCRFI and Affiliated Investment Entities that were expected to participate in such co-investment opportunity, in proportion to their expected participation percentages (unless there is some other agreed-upon arrangement for the reimbursement of such amounts). In the absence of an agreement to the contrary, co-investors will not be allocated any expenses from a transaction (including unconsummated transactions) unless and until they are contractually required to invest in that transaction.

GENERAL MARKET RISKS

Real Estate Market Conditions

NYCRFI's strategy may be based, in part, upon the premise that real estate and real estate-related businesses and assets will be available for purchase by NYCRFI at prices that IIM and Island NYCRF Directives consider favorable. Further, NYCRFI's strategy relies, in part, upon local market recoveries continuing during the term of NYCRFI. No assurance can be given that real estate and real estate-related businesses and assets can be acquired at favorable prices or that the market for such assets will recover or continue to improve, as the case may be, since this will depend, in part, upon events and factors outside the control of IIM and Island NYCRF Directives.

General Economic, Political and Regulatory Conditions

General economic, political or regulatory conditions may affect NYCRFI's activities. Interest rates, general levels of economic activity, the price of securities, availability and terms of credit, changes in laws, regulatory interventions and changes in regulations, changes in fiscal policies, trade barriers, commodity prices, currency exchange rates and controls, national and international political circumstances and participation by other investors in the financial markets may affect the value and number of investments made by NYCRFI or considered by NYCRFI for prospective investments. NYCRFI's investments can be expected to be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of NYCRFI's investments. No assurances can be given as to the effect of these economic, political or regulatory conditions on NYCRFI's investment objectives.

The current U.S. presidential administration has increased uncertainty regarding future political, legislative or administrative changes that may affect ICG, NYCRFI and its investments, and the range and potential implications of possible outcomes are difficult to predict. Such uncertainty may have an adverse effect on, or cause volatility in, the U.S. or global economies and currency and financial markets in the short or long term, which in turn could have a material adverse effect on the performance of NYCRFI's investments. In addition, such changes could impact the regulations applicable to ICG, NYCRFI or its investments. While certain of such changes could be beneficial, other changes may more beneficially affect competitors relative to NYCRFI, or could adversely affect ICG, NYCRFI or its investments.

U.S. Financial Systems

Since the global financial crisis in 2008, world financial markets have experienced extraordinary market conditions, including, among other things, bank failures, extreme losses and volatility in securities markets and the failure of credit markets to function. In reaction to these events, regulators and monetary authorities in the U.S. and several other countries undertook unprecedented regulatory and monetary actions, and regulators in the U.S. and abroad continue to consider and implement measures to maintain the stability and the safety of U.S. and global financial markets. However, U.S. and global financial markets remain volatile. Future events in the marketplace may materially restrict the ability of NYCRFI to sell or liquidate investments at favorable times or for favorable prices. In particular, NYCRFI's investment strategy with respect to its investments may rely in part on the stabilization or improvement of the conditions in the global economy generally and credit markets specifically. In the event of another market deterioration, the value of NYCRFI's investments may be significantly reduced.

IIM's ability to generate attractive investment returns for NYCRFI and its investors may be materially and adversely affected to the extent NYCRFI intends, but is unable, to obtain favorable financing terms for its investments. Furthermore, because NYCRFI intends to invest in distressed and underperforming assets whose values have been impaired, NYCRFI is at greater risk of losing all or a significant portion of the value of such investments than if it were investing in performing assets.

Pandemics and COVID-19

Historically, widespread outbreaks of communicable diseases have affected investment sentiment and caused sporadic volatility in global markets. Such impacts will be unevenly distributed across sectors, businesses and national economies. The 2019-20 outbreak of coronavirus disease 2019 (COVID-19) began in Wuhan, China, in December 2019. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 to be a Public Health Emergency of International Concern. Cases of COVID-19 have been recorded in countries worldwide. Although it is not possible to predict fully the consequences of COVID-19, the pandemic has had a material impact on the global economy and will likely continue to have a material impact on the global economy. Although certain sectors including airlines, manufacturing, retail and tourism appear to be the worst affected, others undoubtedly also will be impacted if COVID-19 cannot be contained.

Such negative changes in the global financial markets, or the New York City economy in which NYCRFI's investments are located, may therefore in turn have a material adverse effect on the business of NYCRFI or its investments.

United Kingdom Exit from the European Union

On June 23, 2016, the United Kingdom (the "UK") voted to leave the European Union (the "EU"). On March 29, 2017, the UK exercised Article 50 of the Treaty on the European Union, which gives an EU member state the right to withdraw from the EU. Following exercise of Article 50, the UK entered into a period of negotiation with the remaining EU member states regarding the terms of the UK's withdrawal from, and the framework for any future relationship(s) with, the remaining member states. The UK left the European Union on January 31, 2020. At that time, the EU treaties ceased to apply to the UK. However, as part of the withdrawal agreement agreed between the UK and the EU, an implementation period has been agreed which has extended the application of EU

law, and provided for continuing membership of the EU single market, until at least the end of 2020. The implementation period can be extended under the withdrawal agreement, if agreed by both the EU and the UK. The terms of the UK's future relationship with the EU and the remaining member states, remains unclear. A separate agreement on the future relationship between the UK and the EU must now be negotiated following the UK's exit from the EU. It remains possible that at the expiry of the implementation period no such agreement will have been agreed between the EU and the UK. In that event, it is likely that a high degree of political, legal, economic and other uncertainty will result.

The UK's exit from the EU is likely to significantly affect the political, fiscal, legal and regulatory landscape in the UK and could have a material impact on its economy and the future growth of its various industries. Given the size and importance of the UK's economy, uncertainty or unpredictability about its legal, political and economic relationship with Europe may be a source of instability, create significant currency fluctuations, and/or otherwise adversely affect international markets, arrangements for trading or other existing cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) for the foreseeable future, including during negotiations and beyond the date of the UK's withdrawal from the EU. The outcome of the UK's exit from the EU could also have a destabilizing effect if other member states were to consider the option of leaving the EU. Such market fluctuations and uncertainties may have adverse effects on financial markets and businesses in the U.S., including the New York City real estate market and economy. For these reasons, the decision of the UK to leave the EU could have adverse consequences on NYCRFI, the performance of its investments, and its ability to fulfill its investment objectives.

CONFLICTS OF INTEREST

Broad and Wide-Ranging Activities

As a diversified merchant banking firm, ICG and its subsidiaries engage in a broad spectrum of activities, including, but not limited to, financial advisory services, underwriting, financing, capital markets, sales and trading, research, merchant banking, sponsoring and managing private investment funds and other activities. In the ordinary course of its business, ICG engages in activities where its interests or the interests of its subsidiaries or clients may conflict with the interests of the investors in NYCRFI, notwithstanding the Island NYCRF Directives' direct participation in NYCRFI.

Affiliate (Principal or Cross) Transactions

NYCRFI may acquire investments from, and/or sell investments to, IIM, its affiliates or Affiliated Investment Entities (as defined below) in accordance with the Advisers Act and NYCRFI's Governing Documents. See Item 11 below for more information regarding such transactions.

Warehoused Investments and Other Possible Principal Transactions

NYCRFI may, although it does not currently intend to, acquire certain "warehoused investments" (which would be identified in NYCRFI's Governing Documents) from IIM or its affiliates on the terms set forth in the Governing Documents and such acquisitions will be deemed approved by the limited partners of NYCRFI. In addition, although it does not currently intend to do so, NYCRFI may acquire additional investments from, or it may sell investments to, ICG or its affiliates,

provided that NYCRFI's Advisory Committee approves any such transaction. The price and other terms on which such "warehoused investments" are acquired (or any other investments acquired from or sold to ICG or its affiliates) will not be on an arm's-length basis and may be less advantageous to NYCRFI than if such transactions were entered into with unaffiliated third-parties.

Other Activities of ICG

Except as limited by the Governing Documents, Island NYC RF Directives and its managers, members, partners, shareholders, officers, employees, agents and affiliates, or any other ICG account (collectively, the "**Affiliated Parties**") may conduct any other business, whether or not such business is in competition with NYCRFI. Without limiting the generality of the foregoing, any of the Affiliated Parties may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms (such other entities, "**Affiliated Investment Entities**"). Such Affiliated Investment Entities may have investment objectives or may implement investment strategies similar to or different from those of NYCRFI. There is no limit to the number of Affiliated Investment Entities that may be managed or advised by any of the Affiliated Parties.

In addition, the Affiliated Parties may, through other investments, including other Affiliated Investment Entities, have interests in the securities in which NYCRFI invests, as well as interests in investments in which NYCRFI does not invest, and in some cases the Affiliated Parties may engage in transactions directly with NYCRFI, provided that NYCRFI will not acquire assets from Island NYC RF Directives and its affiliates without the consent of the Advisory Committee, except in connection with any warehoused investments. The Affiliated Parties also may have investments in their own names and in certain of the entities managed by the Affiliated Parties. The Affiliated Parties may give advice or take action with respect to such other Affiliated Investment Entities that differs from the advice given with respect to NYCRFI, except that certain Affiliated Investment Entities will not sell an interest in an investment in which NYCRFI is invested prior to the time NYCRFI sells its interest in such investment unless NYCRFI has received consent from the Advisory Committee. Furthermore, IIM may determine, in its sole and absolute discretion, not to pursue certain transactions or potential investments on behalf of NYCRFI because of its other businesses or relationships between one or more Affiliated Parties and Affiliated Investment Entities.

Allocation of Investment Opportunities

Certain investment opportunities with limited availability may be appropriate for both NYCRFI and Affiliated Investment Entities. In particular, C-III Recovery Fund III L.P., a Delaware limited partnership, which is managed by an affiliate of ICG (the "**Pre-Existing Fund**") is an Affiliated Investment Entity that focuses on acquiring attractively priced, value-add commercial real estate properties throughout the United States. The Pre-Existing Fund therefore has an overlapping investment strategy with NYCRFI and may compete with NYCRFI for investment opportunities located in New York City. IIM and its affiliates have adopted a protocol to follow in circumstances where an investment opportunity with limited availability may be appropriate for one or more entities covered by the protocol (the "**Investment Allocation Policy**"). Where IIM and its affiliates determine that an investment opportunity is suitable both for NYCRFI and the Pre-Existing Fund, such investment opportunity will be allocated as between NYCRFI and the Pre-Existing Fund in a fair and equitable manner in accordance with the procedures set forth in the Investment Allocation

Policy, which include taking into account various factors including the various investment objectives, the targeted rates of return, diversification of holdings, available capital commitments and the composition of the various entities taken as a whole. IIM and its affiliates may have a conflict of interest in allocating investment opportunities as between NYCRFI and the Pre-Existing Fund, which conflict of interest may be increased to the extent that NYCRFI and the Pre-Existing Fund have different economic terms, are in different stages of their lifecycle or have better or worse historical performance, resulting in Island NYC RF Directives or the general partner of the Pre-Existing Fund being in a position to earn more or less “carried interest”. IIM or its affiliates also may sponsor a successor fund to the Pre-Existing Fund in the future, for which the same conflicts of interest described above would apply.

NYCRFI may receive a smaller or no allocation or inferior terms in particular investments than it would otherwise have received if IIM or its affiliates did not advise, and allocate opportunities to, Affiliated Investment Entities or co-investors. NYC RFI may not be afforded an opportunity to make a particular investment because IIM or its affiliates may offer such opportunity to an Affiliated Investment Entity.

Furthermore, IIM may decline an investment opportunity presented to it in part or in whole if it determines that it is not in the best interests of NYC RFI to pursue such opportunity. If IIM declines to pursue any investment opportunity on behalf of NYC RFI, ICG, its affiliates or an Affiliated Investment Entity may, under certain circumstances, alternatively acquire such investment. IIM may have a conflict of interest in evaluating an opportunity on behalf of NYC RFI where ICG, an affiliate thereof or an Affiliated Investment Entity also is interested in such opportunity.

Conflicts of Interest Involving NYC RFI’s and IIM’s Investment Committees, Acquisitions Team and/or the Allocation Committee

NYC RFI’s and/or IIM’s Investment Committee, IIM’s acquisitions team and/or ICG’s Allocation Committee may be comprised of the same persons (or largely the same persons) who may also serve on the Investment Committee and/or acquisitions team for Affiliated Investment Entities, each of which may have investment objectives similar to those of NYC RFI.

Members of NYC RFI’s and/or IIM’s Investment Committee, IIM’s acquisitions team and/or ICG’s Allocation Committee may have (i) direct investments in NYC RFI, or be entitled to receive a portion of the “carried interest” held by Island NYC RF Directives or have other direct or indirect financial incentives with respect to the performance of NYC RFI, (ii) direct investments in Affiliated Investment Entities (or be entitled to a “carried interest” in such vehicles held by the general partners, managing members, or other managing entities thereof) or other direct or indirect financial incentive with respect to the performance of such Affiliated Investment Entities, (iii) direct or indirect investments in ICG or its affiliates, or (iv) other direct or indirect financial incentives with respect to the performance of ICG or its affiliates. Moreover, members of NYC RFI’s and/or IIM’s Investment Committees, acquisition team or ICG’s Allocation Committee receive compensation (including discretionary bonuses and other incentive compensation) from ICG that may be based, among other things, on the profitability of ICG and its affiliates and NYC RFI. Accordingly, members of IIM’s Investment Committee, acquisitions team and/or ICG’s Allocation Committee have conflicts of interest with respect to the acquisition, disposition, investment, management and/or allocation decisions for NYC RFI, although NYC RFI, IIM and ICG maintain investment, allocation, conflicts of interest and other policies and procedures intended to mitigate such conflicts.

Co-Investment Opportunities; Lack of Exclusivity

In addition, from time to time, and to the extent permitted under the Governing Documents, IIM may raise one or more co-investment funds, establish one or more co-investment vehicles or engage in one or more joint venture arrangements by which an investor in NYCRFI, a Strategic Investor (as defined below), or a third party may participate in an investment opportunity alongside NYCRFI. IIM, in its discretion, may offer a co-investment opportunity to, or engage in transactions, including joint venture arrangements, with NYCRFI, investors in NYCRFI or Strategic Investors to which it is not required to make such offer or engage in such transaction, based on various factors, including, among other things: the size of the offeree's investments in IIM or with affiliates of IIM; the size of the offeree's proposed investment in the transaction; the nature of the offeree; the expertise of the offeree; the ability of the offeree to invest quickly; the expected amount of negotiations required in connection with a potential co-investor's commitment; commercial considerations for the applicable investment; the determination of Island NYCRF Directives as to the appropriateness of offering a co-investment opportunity; and other benefits that the offeree of the co-investment opportunity or joint venture may afford IIM, its affiliates or NYCRFI.

Subject to any requirements set forth in the Governing Documents (including any Side Letter) ("**Co-Investment Requirements**"), in general, (i) no investor in NYCRFI has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of IIM or its related persons or other participants in the applicable transactions, such as co-sponsors, (iii) co-investment opportunities may, and typically will, be offered to some and not other investors in NYCRFI, in the sole discretion of IIM or its related persons, (iv) certain persons other than investors in NYCRFI may be offered co-investment opportunities, in the sole discretion of IIM or its related persons, and (v) co-investors may purchase their interests in an investment at the same time as NYCRFI or may purchase their interests from NYCRFI after NYCRFI has consummated its investment (also known as a post-closing sell down or transfer). Additionally, non-binding acknowledgements of interest in co-investment opportunities are not Co-Investment Requirements and do not require IIM to notify the recipients of such acknowledgements if there is a co-investment opportunity. Certain Side Letters require IIM or its affiliates to offer co-investment opportunities to certain investors in NYCRFI or Strategic Investors.

IIM's exercise of its discretion in allocating investment opportunities with respect to a particular investment among the persons discussed above, including NYCRFI, potential co-investors and third parties, and in the manner discussed above may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to other such persons. While IIM will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion, there can be no assurance that NYCRFI's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which IIM may be subject, discussed herein, did not exist. NYCRFI may receive a smaller or no allocation or inferior terms in particular investments than they would otherwise have received if Island NYCRF Directives, IIM or their affiliates did not advise, and allocate opportunities to, Affiliated Investment Entities or co-investors. NYCRFI may not be afforded any opportunity to make a particular investment because IIM and/or its affiliates may offer such opportunity to an Affiliated Investment Entity.

In the event IIM determines to offer an investment opportunity to a potential co-investor, there can be no assurance that IIM will be successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the co-investment will take place on the terms and conditions that will be preferable for NYCRFI or that expenses incurred by NYCRFI with respect to the syndication of the co-investment will not be substantial. In the event that IIM is not successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, NYCRFI may consequently hold a greater concentration and have exposure in the related investment opportunity than was initially intended, which could make NYCRFI more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto.

In addition, to the extent IIM has discretion over a secondary transfer of interests in NYCRFI pursuant to the Governing Documents, or is asked to identify potential purchasers in a secondary transfer, IIM will do so in its sole discretion, generally taking into account the following factors: IIM's evaluation of the financial resources of the potential purchaser, including its ability to meet capital contribution obligations; IIM's perception of its past experiences and relationships with the potential purchaser, including its belief that the potential purchaser would help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits to current or future clients and/or IIM; whether the potential purchaser would subject IIM, NYCRFI, or their affiliates to legal, regulatory, reporting, public relations, media or other burdens; the expected amount of negotiations required in connection with a potential purchaser's investment; requirements in the Governing Documents; and such other facts as it deems appropriate under the circumstances in exercising such discretion. A purchaser's potential investment into a future fund may be considered, but will not be the sole determining factor considered by IIM in determining whether to grant or withhold its consent to a secondary transfer of interests in NYCRFI.

Relationships with Placement Agents and Other Parties

The personnel of IIM or its affiliates may have board, advisory or other relationships with issuers, distributors, consultants and others that may have investments in NYCRFI and/or related funds or that may recommend investments in NYCRFI and/or related funds or distribute interests in NYCRFI and/or related funds. To the extent permitted by applicable law, IIM and its affiliates may make charitable contributions to institutions, including those that have relationships with investors or personnel of investors. As a result of such relationships and arrangements, placement agents, consultants, distributors and other parties may have conflicts associated with their promotion of NYCRFI, or other dealings with NYCRFI, that create incentives for them to promote NYCRFI.

Key Employees

The success of NYCRFI depends to a significant extent upon the experience of the senior management and other members of the management team of IIM and its affiliates (the "**Key Employees**"), whose continued service is not guaranteed. Any of these individuals could be difficult to replace, and the loss of the services of one or more members of IIM's senior management team could have a material and adverse effect on the operations of NYCRFI. In addition, some of the investment professionals of NYCRFI may devote some of their business time and attention to other businesses of affiliates of NYCRFI. There are no means of predicting whether they will successfully implement NYCRFI's investment strategy, especially during changing economic conditions.

The Key Employees are not under any obligation to devote their full time and attention solely to the business of NYCRFI nor are any of them obligated to devote any particular portion of time to the affairs of NYCRFI. They may work on other projects for IIM, its affiliates or any Affiliated Investment Entities. Consequently, conflicts of interest may arise in allocating management time, services or functions of Key Employees, as well as other officers and employees of IIM and its affiliates to the extent they are needed for services or functions on behalf of NYCRFI.

Services between ICG and NYCRFI

If NYCRFI acquires title to or otherwise gains control of real property, NYCRFI may engage Island NYC RF Directives, IIM, ICG and/or one or more of their respective affiliates to provide property-level services in respect of such real property, including without limitation property management, leasing, sales brokerage, construction, development and financing services. In addition, Island NYC RF Directives, IIM, ICG and their respective affiliates also may provide other services to NYCRFI, including, without limitation, cash management, administrative, custodial, trustee, distribution, banking, lending, short-term credit and other financial and securities services. No such service provider will bear any responsibility for selecting the investments or for their performance solely as a result of providing such services to NYCRFI.

In addition, NYCRFI may engage IIM, ICG or their respective affiliates (i) to provide legal services related to the acquisition, disposition, financing, refinancing, ownership or management of potential or actual investments, or to designate legal professionals of Island NYC RF Directives or any of its affiliates to provide such services, in each case to be charged on an allocable basis and at a cost at least as favorable to NYCRFI as available in arm's-length transactions with qualified third-party providers of such services and (ii) to provide accounting, accounting supervisory, valuation and similar services related to NYCRFI's investments, or to prepare performance data for NYCRFI's investments at the request of any of NYCRFI's limited partners, or to designate one or more members of an accounting group associated with ICG or any of its affiliates to provide such services, in each case to be charged on an allocable basis and at a cost at least as favorable to NYCRFI as available in arm's-length transactions with qualified third-party providers of such services.

To the extent Island NYC RF Directives, IIM, ICG or any of their affiliates perform any services that are included in the operating expenses of NYCRFI, Island NYC RF Directives, IIM, ICG or such affiliates may charge rates customarily charged for similar services by persons engaged in the same or substantially similar activities and the terms and conditions of any such services shall be at least as favorable to NYCRFI as the terms reasonably expected by Island NYC RF Directives to be available in an arm's-length transaction with an independent third party, although such compensation will not actually be determined through arm's-length negotiation and none of Island NYC RF Directives, IIM or ICG will guarantee the performance by its affiliates of any services provided to NYCRFI.

Additional Compensation to ICG and its Affiliates

ICG and its affiliates are engaged in a number of real estate and other services businesses. NYCRFI may engage ICG affiliates for Property-Related Services. ICG may use an affiliate to provide Property-Related Services, rather than a third party, if it determines that such affiliate has the requisite expertise to provide such services. No such affiliated service provider will bear any responsibility for selecting the Investments or for their performance solely as a result of providing

such services to NYCRFI. To the extent NYCRFI engages ICG or any of its affiliates to perform any Property-Related Services and the Property-Related Service Fees for such Property-Related Services are included in the operating expenses of NYCRFI (and NYCRFI therefore bears the cost of such Property-Related Services), the Property-Related Service Fees and the other terms and conditions of such Property-Related Services shall be on such terms as would generally be available in an arm's length transaction with a third party (provided that such third party is generally in the business of providing such services) in the applicable market, although such Property-Related Services Fees and the other terms and condition will not actually be determined through arm's-length negotiation. ICG monitors the Property-Related Service Fees charged by each such affiliate to NYCRFI and where practical obtains quotes or estimates of the fees to be charged by third parties. In addition to the payment of Property-Related Service Fees, NYCRFI also will be required to reimburse ICG or its affiliates, as applicable, for their out-of-pocket expenses incurred in providing the Property Related Services.

In addition, affiliates of ICG earn or share (and may in the future earn or share) in Transaction Fees paid by NYCRFI upon the closing of the sale of assets by NYCRFI, including a sale to another client advised by ICG or its affiliate, as compensation for real estate brokerage or other services.

When engaging an affiliated service provider, ICG has an economic incentive to select the affiliate even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost. Any Property-Related Service Fees, Transaction Fees and associated reimbursements will be in addition to any Investment Management Fee payable to IIM and the performance based compensation payable to Island NYC RF Directives. This arrangement creates a conflict of interest between ICG and its affiliates, on the one hand, and NYCRFI and its limited partners, on the other hand, because the amounts of these fees and reimbursements may be substantial and NYCRFI and its limited partners generally do not have an interest in these fees and reimbursements. ICG determines the amount of these Property-Related Service Fees, Transaction Fees and reimbursements in its own discretion, subject to agreements with service providers, sellers and buyers, and/or third party co-investors in its transactions. In many cases with respect to the implementation of the arrangements described above, there is not an independent third party involved on behalf of NYCRFI. Therefore, a conflict of interest exists in the determination of any such fees and other related terms in the applicable agreement with NYCRFI.

Transactions with Strategic Investors

NYCRFI may engage in transactions, including co-investment opportunities and joint venture arrangements with respect to its investments, with clients of ICG and its affiliates, investors in such clients, investors in ICG or another affiliate, a joint venture partner in another real estate equity investment or others with which ICG and/or its affiliates has (and may in the future have) a current or prior relationship (collectively, "**Strategic Investors**"). Moreover, certain Strategic Investors may provide services (e.g., as operating advisor, property manager or otherwise) to interests or properties owned by NYCRFI. As a result, Island NYC RF Directives may encounter conflicts of interest in allocating investment opportunities between NYCRFI and Strategic Investors.

Conflicts of Interest Involving Unaffiliated Investors in NYCRFI that Are Investors in Affiliated Investment Entities

Certain unaffiliated investors in NYCRFI may also be direct or indirect investors in Affiliated Investment Entities. Those relationships may create a conflict of interest with other unaffiliated

investors in NYCRFI who do not have existing relationships with IIM. Neither IIM nor any of its affiliates will provide any undisclosed benefit(s) to any investor in NYCRFI who has any other relationship with IIM or its affiliates at the expense of other investors in NYCRFI due to such other relationship with IIM or its affiliates. Notwithstanding the foregoing, IIM and NYCRFI may, in accordance with the Governing Documents, provide additional rights to investors through Side Letters that do not result in any detriment to investors in NYCRFI.

Gifts, Contributions, Donations and Events

In order to provide quality service, ICG establishes, maintains and enhances relationships with professionals in the real estate, financial services, legal and other industries who may provide services to NYCRFI, such as attorneys, consultants, title companies, investors and other third parties with whom ICG does business (including, without limitation, investment professionals who may, from time to time, provide NYCRFI with investment opportunities) and other service providers and professionals (collectively, “**Relationship Parties**”). ICG, its employees and affiliates may from time to time invite, or be invited by, Relationship Parties to participate in activities, such as meals, conferences, sporting events, concerts, golf and other outings and other entertainment and recreational activities, may give or receive gifts related to attendance or participation in such activities, and may be asked to make charitable, political or other contributions or donations to organizations or political officeholders or candidates for political office at the request of a Relationship Party or one of its executives (collectively, “**Events**”). ICG’s subsequent selection and retention of such Relationship Parties as service providers for NYCRFI or partners in an investment opportunity for NYCRFI, as applicable, could be viewed as a form of reimbursement for attending such Events, and ICG may have an incentive to select service providers for NYCRFI or partners in an investment opportunity for NYCRFI based on the expectation of receiving gifts or invitations to future Events. Notwithstanding that potential conflict of interest, ICG has adopted policies and procedures designed to help prevent any Event from influencing its decision to hire or retain a Relationship Party for NYCRFI or to engage in any transaction on behalf of NYCRFI. IIM’s policies and procedures require gifts and entertainment valued in excess of certain thresholds to be reported to and, in certain cases, pre-approved in writing by IIM’s Chief Compliance Officer.

IIM employees are prohibited from (i) giving or receiving meals (including dinners and lunches), gifts or entertainment (including tickets to athletic events) of any value to or from any independent auditing firm, or any member or employee of an independent auditing firm, that provides services to NYCRFI and (ii) soliciting charitable donations from any independent auditing firm, or any member or employee of an independent auditing firm, that provides services to NYCRFI. If meals, gifts or entertainment are provided as part of an event sponsored by an independent auditing firm, IIM’s Chief Compliance Officer may in his discretion provide an exception to this prohibition.

In addition, independent auditing firms that provide services to NYCRFI and their members and employees are prohibited from (i) giving or receiving meals (including dinners and lunches), gifts or entertainment (including tickets to athletic events) of any value to or from any IIM employee and (ii) making any charitable donations to a charity in response to solicitation from IIM, its affiliates or any IIM employee.

For more information regarding policies, procedures, prohibitions, reporting obligations and pre-clearance requirements, including prohibitions on giving meals, gifts and/or entertainment from or to independent auditing firms, please see Item 11 below.

Dis-alignment of Interests

As part of the return to Island NYCRF Directives from the investments of NYCRFI, Island NYCRF Directives is entitled to a “carried interest.” In an effort to increase the potential return of Island NYCRF Directives, Island NYCRF Directives may, among other things, select investments for NYCRFI that involve a higher degree of risk than might otherwise be the case if Island NYCRF Directives were not so incentivized.

Furthermore, Island NYCRF Directives may take into account the capital needs of ICG, any Affiliated Parties and Affiliated Investment Entities when determining the amount and timing of distributions by NYCRFI to its investors.

Diverse Investor Base

The investors in NYCRFI may have conflicting investment, tax and other interests with respect to their investments in NYCRFI. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by NYCRFI, the structuring or the acquisition of investments and the timing of dispositions of investments. As a consequence, conflicts of interest may arise in connection with decisions made by Island NYCRF Directives, including with respect to the nature or structuring of investments that may be more beneficial for one investor in NYCRFI than for another investor in NYCRFI, especially with respect to the investor’s respective tax situations. No assurance is given that any particular structure will be suitable for all investors in NYCRFI and, in certain circumstances, such structures may lead to additional costs or reporting obligations for some or all of the investors in NYCRFI. In selecting and structuring investments appropriate for NYCRFI, Island NYCRF Directives will not be obligated to consider the investment, tax, or other objectives of a particular investor. Additionally, except as expressly provided otherwise in the Limited Partnership Agreement, any investor and its affiliates may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including without limitation, debt and/or equity real estate investment ventures, whether or not such other enterprises shall be in competition with any activities of NYCRFI, Island NYCRF Directives or any investor in NYCRFI, and none of NYCRFI, Island NYCRF Directives or any investor in NYCRFI shall have any right by virtue of the Limited Partnership Agreement in or to such independent ventures or to the income or profits derived therefrom.

Side Letter Agreements; Advisory Committee Rights

Island NYCRF Directives (on its own behalf and/or on behalf of NYCRFI), and/or IIM, without any act, approval or vote of any investor in NYCRFI, has entered into (and in the future may enter into) Side Letters with one or more investors in NYCRFI that have the effect of establishing rights under, or altering or supplementing the terms of the Limited Partnership Agreement and/or the subscription agreement of any investor in NYCRFI (the “**Operative Agreements**”). Any rights established, or any terms of any of the Operative Agreements altered or supplemented, in a Side Letter with an investor in NYCRFI shall govern notwithstanding any other provision of any of the Operative Agreements. As a result of any Side Letters, certain investors may receive additional benefits that other investors will not receive, which may include different fee structures and other preferential economic rights (including amendments to the preferred return and waterfall), information and reporting rights, excuse or exclusion rights, waiver of certain confidentiality obligations, co-investment rights certain rights or terms necessary in light of particular legal,

regulatory or policy requirements of a particular investor, additional obligations and restrictions with respect to structuring particular investments in light of the legal and regulatory considerations applicable to a particular investor, veto rights and liquidity or transfer rights. Except as otherwise agreed with an investor, neither Island NYCRF Directives nor IIM will be required to notify any other investor in NYCRFI of the existence of any Side Letters or any of the rights or terms or provisions thereof, and neither Island NYCRF Directives nor IIM will be required to offer such additional or different rights or terms to any other investor in NYCRFI. Other investors in NYCRFI will have no recourse against NYCRFI, Island NYCRF Directives, IIM or any of their respective affiliates in the event that one or more investors in NYCRFI receive additional or different rights or terms as a result of any Side Letter.

Advisory Committee Rights

NYCRFI has established an Advisory Committee, consisting of representatives of limited partners of NYCRFI. A conflict of interest may exist because some, but not all, limited partners of NYCRFI are permitted to designate a member to the Advisory Committee. The Advisory Committee also will have the ability to approve conflicts of interests with respect to ICG and NYCRFI, which could be disadvantageous to the investors, including those limited partners who do not designate a member to the Advisory Committee.

Relationships with Service Providers

An employee of ICG or its affiliates, and/or a family member or relative of such employee, may have ownership, employment or other interests in a service provider selected by ICG for NYCRFI. Such relationships may influence NYCRFI, Island NYCRF Directives or IIM in determining whether to select or recommend such service provider to perform services for NYCRFI or an investment. NYCRFI, Island NYCRF Directives or IIM (as applicable) will have a conflict of interest with NYCRFI in recommending the retention or continuation of such a service provider to NYCRFI or an investment if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in NYCRFI or will provide ICG information about markets and industries in which ICG operates or will provide other services that are beneficial to ICG, Island NYCRF Directives or IIM. Although each of ICG and its affiliates selects service providers that it believes will be beneficial for NYCRFI, there is a possibility that ICG, because of family, financial, business interest or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Other Conflicts

ICG and NYCRFI may, from time to time, engage other common service providers, including but not limited to accountants and auditors. In certain circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to ICG and NYCRFI. This may result in ICG receiving a more favorable rate on services provided to it by such a common service provider than those payable by NYCRFI, or ICG receiving a discount on services even though NYCRFI receives a lesser, or no, discount. This creates a conflict of interest between ICG, on the one hand, and NYCRFI, on the other hand, in determining whether to engage such service providers, including the possibility that ICG will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by NYCRFI.

ICG may, in its discretion, cause NYCRFI to have ongoing business dealings, arrangements or agreements with persons who are former employees or executives of ICG and its affiliates. NYCRFI may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. In such circumstances, there may be a conflict of interest between ICG and NYCRFI in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that ICG may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

In no event should this Brochure be considered to be an offer of interests in NYCRFI or relied on in determining to invest in NYCRFI. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure. Rather, this Brochure is designed solely to provide information about IIM for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in the Governing Documents and/or offering documents for NYCRFI.

ITEM 9: DISCIPLINARY INFORMATION

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

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. REGISTERED BROKER-DEALER OR REGISTERED REPRESENTATIVE

- (1) Anubis, an affiliate of IIM, is indirectly owned by ICG and is registered as a broker-dealer with the SEC, all 50 states and the District of Columbia, and is a member of FINRA.

Anubis has previously served as (i) placement agent with respect to the offering of interests in private investment fund clients of C-III Investment Management LLC ("C3IM") (see Item 10.C below for C3IM's relationship with IIM), (ii) solicitor for a separate account client sub-advised by C3IM and (iii) placement agent and structuring agent for pooled investment vehicles sponsored by ICG, C-III Capital Partners LLC ("C-III") (see Item 10.C below for C-III's relationship with IIM) and their affiliates, and may in the future serve as placement agent for the offering of interests in other pooled investment vehicles that may be organized in the future to be sponsored or managed by ICG, C-III, IIM or their affiliates.

Certain of IIM's management persons or employees of IIM's affiliates are or may become registered representatives and/or principals of Anubis and, when such person(s) engages in securities-related transactional activities, will be subject to Anubis' policies and procedures in addition to IIM's policies and procedures.

- (2) Resource Securities LLC ("RSI"), an affiliate of IIM indirectly owned by C-III, is registered as a broker-dealer with the SEC, all 50 states and the District of Columbia, and is a member of FINRA. RSI engages in (i) the underwriting of direct participation programs and real estate investment trusts on an "all or none," "part or none," and/or "best efforts" basis, (ii) the wholesaling with other broker/dealers of direct participation programs and REITs, (iii) the retail sale of direct participation programs and REITS to public customers and (iv) the wholesaling with other broker/dealers of closed-end real estate interval funds.

Certain of IIM's management persons or employees of IIM's affiliates are or may become registered representatives and/or principals of RSI and, when such person(s) engages in securities-related transactional activities, will be subject to RSI's policies and procedures in addition to IIM's policies and procedures.

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

C-III HY Directives III LLC ("**HY Directives III**"), a wholly-owned subsidiary of C-III that serves as the general partner of C-III High Yield Real Estate Debt Fund III L.P. ("**HYREDF III**"), is an exempt CPO for HYREDF III.

C-III HY Directives IV LLC ("**HY Directives IV**"), a wholly-owned subsidiary of C-III that serves as the general partner of C-III High Yield Real Estate Debt Fund III L.P. ("**HYREDF IV**"), is an exempt CPO for HYREDF IV.

One of C3IM's management persons, who is the sole director of C-III High Yield Real Estate Debt NYCRFI IV TIER Holdings Inc. ("**HY IV TIER Holdings**"), which is a wholly-owned subsidiary of HYREDF IV, is an exempt CPO for HY IV TIER Holdings.

Resource Alternative Advisor, LLC ("**RAA**"), an indirect wholly-owned subsidiary of RAI, is an exempt commodity pool operator with respect to Resource Credit Income Fund (the "**Credit Income Fund**"), a closed-end interval fund registered as an investment company under the Investment Company Act.

Certain of IIM's management persons or employees of IIM's affiliates provide (and may in the future provide) services for HY Directives III, HY Directives IV, HY IV TIER Holdings, RRE and RAA.

C. OTHER RELATIONSHIPS OR ARRANGEMENTS

IIM has other financial industry affiliations and activities (described below), and IIM and its affiliates have entered into (and may in the future enter into) transactions directly with (to the extent permitted by applicable law), and/or on behalf of, NYCRFI, which may present certain conflicts of interest as described below.

Island NYCRF Directives serves as the general partner of NYCRFI.

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

C-III is a holding company that owns a number of operating entities that are engaged in the business of owning, controlling, operating, managing, servicing and providing other services related to real estate and real estate-related assets. C-III is externally managed by Island C-III Manager LLC, an indirect subsidiary of ICG and an affiliate of IIM.

C-III and/or its affiliates have served (and may in the future serve) as the sponsor of pooled investment vehicles for which (i) C3IM or its affiliates have served (and may in the future serve) as investment manager, investment adviser or other similar capacity and (ii) an affiliate has served (and may in the future serve) as general partner or managing member.

C3IM, a wholly-owned subsidiary of C-III, is an SEC-registered investment adviser that began providing investment advisory services in 2011. C3IM serves as (i) investment manager to various collective investment vehicles (or investment adviser to the general partner, managing member or investment manager of such collective investment vehicles) that invest in real estate and real estate-related debt and/or equity investments, (ii) collateral manager for various issuers of collateralized debt obligations, and (iii) collateral administrator for various issuers of collateralized debt obligations.

Certain affiliates of C3IM provide investment advisory services and are considered “relying advisers” of C3IM (C3IM is the “filing adviser”) in accordance with Form ADV’s General Instructions as follows:

- (1) C-III JERIT Manager LLC, a wholly-owned subsidiary of C3IM, serves as the external manager for a real estate investment trust;
- (2) JER Investors Trust Inc. serves as the collateral administrator for a collateralized debt obligation issued by it; and
- (3) C-III SA Management LLC, a wholly-owned subsidiary of C3IM, serves as a sub-advisor to the non-affiliated investment manager of a separate account.

Certain other affiliates of C3IM serve as general partners or managing member of pooled investment vehicle clients and rely on C3IM’s registration as an investment adviser in accordance with the 2005 SEC Letter and Form ADV’s General Instructions.

C-III Realty Services LLC, d/b/a NAI Global Capital Markets (“**NAI GCM**”), a wholly-owned subsidiary of C-III, is licensed as a real estate brokerage firm in New York and Tennessee. C-III Realty Services (Texas) LLC is licensed as a real estate brokerage firm in Texas. NAI GCM provides commercial real estate brokerage services. IIM may retain NAI GCM in connection with the purchase or sale of a real estate asset to or from NYCRFI may earn or share in real estate brokerage commissions or other fees paid by NYCRFI upon the closing of the sale of assets by NYCRFI as compensation for such real estate brokerage services.

New America Network Inc. (“**NAI**”), a wholly-owned subsidiary of C-III, is a global network of independent commercial real estate brokerage firms, each of which is appropriately licensed. NAI is licensed as a real estate brokerage firm in Pennsylvania. NAI Global of New York City, Inc. (“**NAI NY**”) is licensed as a real estate brokerage firm in New York. IIM may retain NAI and NAI NY in connection with the purchase or sale of a real estate asset to or from NYCRFI and/or leasing services for an asset owned by NYCRFI and may earn or share in real estate brokerage or leasing commissions or other fees paid by NYCRFI as compensation for such real estate brokerage services. IIM may retain an independent NAI member firm in connection with the purchase or sale of a real estate asset to or from NYCRFI and/or leasing services for an asset owned by NYCRFI and may earn or share in leasing commissions paid by NYCRFI as compensation for such real estate leasing services. In addition, IIM may enter into joint venture arrangements with independent NAI

member firms with respect to the acquisition of investments by or for NYCRFI, and such independent NAI member firms may provide additional services (such as acting as the operating partner, property manager and/or leasing agent) with respect to such underlying investment.

The Planning & Zoning Resource Company LLC, a wholly-owned subsidiary of C-III, is a zoning due diligence company that provides site zoning analysis and compliance review.

RAI, a wholly-owned subsidiary of C-III, is a specialized asset management company that manages, and seeks to develop, investment vehicles for which RAI and its subsidiaries, affiliates, and joint ventures provide investment and asset management services. Various subsidiaries and affiliates of RAI are registered with the SEC as investment advisers, as follows:

- (1) RRE, a wholly-owned subsidiary of RAI, is an SEC-registered investment adviser.
- (2) RAA, an indirect wholly-owned subsidiary of RAI, is an SEC-registered investment adviser that provides investment advisory services to the Credit Income Fund, a closed-end interval fund registered as an investment company under the Investment Company Act that invests primarily in debt of small- to middle-market companies.

RREF is licensed as a finance lender in California.

Certain of IIM's management persons or employees of IIM's affiliates are providing (or may in the future provide) services for each of the IIM affiliates mentioned above. For more information regarding the services provided by certain of the above IIM affiliates, and the associated conflicts of interest, please see Items 5 and 8 above.

D. RECOMMEND OTHER ADVISORS

N/A

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

A. CODE OF ETHICS

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

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

- requires each Supervised Person to place the interests of NYCRFI first and prohibits a Supervised Person from taking personal advantage of an opportunity that belongs to NYCRFI;
- requires each Supervised person to participate in initial compliance training with a member of IIM's compliance department and annual compliance training thereafter, logs of which will be maintained by the Chief Compliance Officer;
- requires each Access Person to conduct all personal investment transactions in compliance with the Code of Ethics and requires each Supervised Person to comply with the federal securities laws and all other applicable laws, rules and regulations;
- requires each Access Person to disclose upon hire and thereafter each personal securities account held by the Access Person or by such Access Person's spouse, minor children or others living in the Access Person's household;
- requires each Access Person to disclose upon hire and each quarter thereafter all securities holdings (other than those classes of securities designated as exempt) and securities transactions (i) by the Access Person or by such Access Person's spouse, minor children or others living in the Access Person's household and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);
- requires each Access Person to provide copies of monthly and/or quarterly account statements and trade confirmations for all securities transactions (other than transactions in those classes of securities designated as exempt) (i) by the Access Person or by such Access Person's spouse, minor children or others living in the Access Person's household and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);
- requires each Supervised Person to pre-clear any securities offered in an initial public offering, initial coin offerings or private placement (including investments in hedge funds, fund-of-funds, private equity funds, venture capital funds and other unregistered pooled investment vehicles);
- requires the Chief Compliance Officer to monitor the activities of each Supervised Person and Access Person to ensure compliance with the Code of Ethics and to prevent and detect violations of applicable law, violations of IIM's Code of Ethics and conflicts of interest between IIM and each NYCRFI; and
- requires each Supervised Person to acknowledge the terms of the Code of Ethics upon hire and annually (or as amended) thereafter and to certify annually as to his or her compliance with the Code of Ethics.

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

B. SUPERVISED PERSON CONDUCT

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

- prohibiting each Supervised Person from trading on the basis of, or misappropriating, material nonpublic or proprietary information (*i.e.*, insider trading);
- prohibiting each Supervised Person from purchasing or selling securities of any issuer on IIM's restricted issuers list;
- prohibiting each Supervised Person from engaging in certain prohibited transactions, including market manipulation, front-running and trading on rumors;
- prohibiting each Supervised Person from engaging in any transaction that involves the acquisition or disposition of a security of a CMBS trust or issuer of a CRE-CDO for an account (i) held by a Supervised Person or by such Supervised Person's spouse, minor children or others living in the Supervised Person's household and (ii) for which the Supervised Person has direct or indirect influence or control over investment decisions, without the prior written approval of the Chief Compliance Officer;
- requiring each Supervised Person to report and obtain the prior approval of the Chief Compliance Officer before engaging in any outside business activity;
- requiring each Supervised Person to report any gift or entertainment (given or received) in excess of \$250 per recipient per year and to obtain the prior written approval of the Chief Compliance Officer for any gift or entertainment (given or received) in excess of \$1,000 (\$1,500 for senior executives) per recipient per year;
- prohibiting each Supervised Person from giving or receiving any meals, gifts and/or entertainment from or to the independent auditing firm, or any member or employee of an independent auditing firm, that provides services to NYCRFI or any Affiliated Investment Entity;
- prohibiting IIM and each Supervised Person from making corrupt payments to any officer or employee of a foreign government, a public international organization or any department or agency thereof or any person acting in an official capacity for such government or organization to obtain or retain business, to secure any improper advantage or to act in violation of any lawful duty; and
- requiring each Supervised Person to obtain the prior approval of the Chief Compliance Officer before making any political contribution and to report each political contribution, and if a political contribution involves hosting a fundraising event, providing certain details about to fundraising event, and prohibiting certain political contributions in violation of applicable law, rule or regulation.

C. PARTICIPATION OR INTEREST IN NYCRFI TRANSACTIONS

IIM may in the future recommend to NYCRFI, and in the future buy or sell for NYCRFI, securities in which IIM (or an affiliate) has a material financial interest. To the extent NYCRFI invests in a pooled investment vehicle that is advised by, or that has another business or other relationship with, IIM or its affiliates, NYCRFI or its investors will bear not only the direct Management Fees and expenses of NYCRFI, but also the expenses and fees associated with NYCRFI's investment in the underlying pooled investment vehicle, some of which fees and expenses may be paid to IIM or its related persons. Additionally, the interests of NYCRFI, as an investor, may conflict with the interests of the underlying pooled investment vehicle owned by NYCRFI, or IIM's related persons in their capacity as a service provider to the underlying pooled investment vehicle, which would create a conflict of interest for IIM.

IIM and its affiliates may engage in principal, agency cross or cross transactions with or for NYCRFI, consistent with the Advisers Act, SEC rules, the policies and procedures set forth in IIM's Compliance Manual and the Governing Documents.

IIM and its affiliates may in the future cause a NYCRFI to purchase investments from another client, or to sell investments to another client. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, NYCRFI or such other client may not receive the best price otherwise possible, or IIM might have an incentive to improve the performance of one client by selling underperforming assets to another client in order, for example, to earn fees. In connection with such transactions, IIM, its affiliates and/or their professionals (i) will, from time to time, have significant investments, or intentions to invest, in the client (including NYCRFI) that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). IIM and its affiliates may receive management or other fees in connection with their management of the relevant clients involved in such a transaction, and may also be entitled to share in the investment profits of the relevant clients.

To address these conflicts of interest, in connection with effecting such transactions, IIM will follow any investment allocation requirements set forth in the governing documents of the relevant clients. To the extent such matters are not addressed in the governing documents, IIM's Chief Compliance Officer and, in certain cases, the client's advisory committee, will be responsible for confirming that IIM (i) considers its respective duties to each client, (ii) determines whether the purchase or sale and price or other terms are comparable to what could be obtained through an arm's length transaction with a third party on commercially reasonable terms, and (iii) obtains any required approvals of the transaction's terms and conditions. NYCRFI will not directly or indirectly receive any commission or other transaction-based compensation for effecting any such transaction, and IIM will not effect any such transaction for any client where IIM is deemed to own more than 25% of a client, unless such transaction complies with the requirements of IIM's "principal transactions" policy, as described below.

Section 206 under the Advisers Act regulates "principal transactions" among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. In connection with IIM's management of NYCRFI, IIM and its affiliates may

engage in principal transactions. IIM has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to NYCRFI regarding any proposed principal transactions and that any required prior consent to the transaction be received.

The Chief Compliance Officer will, on not less than an annual basis, review and test the adequacy of the policies and procedures relating to the above transactions and the effectiveness of their implementation. The annual review shall also include a description of the need, if any, for revisions to these policies and procedures. The Chief Compliance Officer shall document such testing, which shall be maintained as a record of IIM and NYCRFI.

For information regarding the allocation of investment opportunities to IIM that may be appropriate for NYCRFI, and the associated conflicts of interest, please see Item 8 above.

D. INVESTING IN ASSETS RECOMMENDED OR HELD BY A CLIENT

IIM, its affiliates and Affiliated Investment Entities may in the future invest in the same (or related) assets that are held by, or recommended to, NYCRFI.

E. PURCHASE AND SALES OF SECURITIES BY RELATED PERSONS

Generally, IIM does not recommend a security to NYCRFI, or buy or sell a security for NYCRFI's account, at or about the same time that it buys or sells the same security for its own account, although it may do so on occasion occur. In the event that a security is potentially an appropriate investment opportunity for NYCRFI, IIM will present the opportunity to NYCRFI's Investment Committee for consideration, and only in the event that NYCRFI's Investment Committee declines to pursue the investment opportunity will IIM consider the investment opportunity for its own account. Notwithstanding the foregoing, in the event NYCRFI's Investment Committee determines to acquire only a portion of the investment opportunity presented, IIM may from time to time acquire the balance of the investment opportunity for its own account.

In addition, there may be instances where different securities of a particular issuer may be appropriate investment opportunities for both NYCRFI and IIM. IIM shall only pursue the investment opportunity if NYCRFI's Investment Committee has determined that the security being considered by it is not an appropriate investment opportunity for NYCRFI.

Officers, principals and employees of IIM and its affiliates may also buy securities in transactions offered to but rejected by NYCRFI. In addition, officers, principals and employees of IIM and its affiliates may seek to accommodate NYCRFI and buy securities from NYCRFI (for example, if NYCRFI is required to divest from such investment on off-market terms for legal, regulatory or other similar reasons). In those circumstances, a conflict of interest may arise because such investing personnel will, for some investments, benefit from the evaluation, investigation, and due diligence undertaken by IIM on behalf of NYCRFI. In such circumstances, the investing personnel will not share or reimburse NYCRFI and/or IIM for any expenses incurred in connection with the investment opportunity. The transactions described above are subject to the policies and procedures set forth in the Code of Ethics and Compliance Manual, and NYCRFI and investors will not benefit from any such investments.

Officers, principals and employees of IIM and its affiliates may also buy securities in transactions in which NYCRFI invests. The investment policies, fee arrangements and other circumstances of these investments may vary from those of NYCRFI. If officers, principals and employees of IIM have made large capital investments in or alongside NYCRFI, they may have conflicting interests with respect to these investments.

ITEM 12: BROKERAGE PRACTICES

A. SELECTING OR RECOMMENDING BROKER-DEALERS FOR NYCRFI TRANSACTIONS

Unless otherwise specified in the Governing Documents, IIM has the authority to determine for NYCRFI, without obtaining specific NYCRFI consent (except as otherwise provided below), (i) the securities to be bought or sold, (ii) the amount of the securities to be bought or sold, (iii) the broker or dealer to be used and (iv) if applicable, the commission rates paid. Limitations on IIM's authority are guided by, among other things, (a) its responsibility to act as a fiduciary when handling NYCRFI's account, (b) its duty to seek to obtain "best execution," (c) the investment strategies and objectives of NYCRFI and (d) the Governing Documents. IIM is required to obtain consent of NYCRFI and/or its limited partners (or the consent of the Advisory Committee of NYCRFI) for any principal transaction involving IIM, an affiliate and NYCRFI and may be required to obtain consent of NYCRFI and/or its limited partners (or the consent of the Advisory Committee of NYCRFI) for any affiliate or cross transaction involving IIM, an affiliate and NYCRFI.

In determining which broker or dealer to use, IIM seeks to obtain "best execution" with respect to its securities transactions for NYCRFI. IIM evaluates the character of the market for the security, including, but not limited to, the security's price, volatility and liquidity, as well as the size and type of transaction. Specifically, in making any such determination, IIM considers a number of factors, including, but not limited to:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- special execution capabilities;
- clearance;
- settlement;
- reputation;
- on-line pricing;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;

- order of call;
- on-line access to computerized data regarding NYCRFI's account;
- custodial (and other) services provided by such brokers and/or dealers that may potentially enhance IIM's general portfolio management capabilities;
- performance measurement data;
- financing terms;
- the quality, comprehensiveness and frequency of available research and related services considered to be of value (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis);
- provision of the opportunity to participate in capital introduction events sponsored by the broker-dealer; and
- commission-sharing agreements that are in effect at the time of the transaction.

IIM is not required to weigh any of these factors equally.

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

1. RESEARCH AND OTHER SOFT DOLLAR BENEFITS

While IIM does not enter into traditional "soft dollar" arrangements, IIM does not have "execution only" commission rates; thus IIM may receive, and NYCRFI may be deemed to be paying for, research and related products and services provided by the broker-dealer executing a trade that are included in the commission rate. Research and related products or services furnished by a broker-dealer will be limited to services that constitute research within the meaning of Section 28(e) of the Securities and Exchange Act of 1934, as amended. Accordingly, research and related products or services may include, but are not limited to: written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts, as well as discussions with research personnel; financial and industry publications; quantitative analytical software; market data-related software and services; statistical and pricing services utilized in the investment process; and databases and other technical services utilized in the investment management process. Research and related products or services may include both proprietary research created or developed by the broker-dealer and research created or developed by a third party. Research services obtained by the use of commissions arising from NYCRFI's portfolio transactions may not only benefit NYCRFI's investing, but may benefit one or more Affiliated Investment Entities and/or may be used by IIM in its other investment activities.

When IIM uses NYCRFI brokerage commissions to obtain research or other products or services, it may receive a benefit because it does not have to produce or pay for the research, products or services. The receipt of research and other “soft dollar” benefits from broker-dealers may provide an incentive for IIM to select or recommend a broker-dealer based on IIM’s interest in receiving the research or other products or services, rather than on its NYCRFI’s interest in receiving the most favorable execution. Using a broker-dealer that provides IIM with research or other “soft-dollar” benefits may cause NYCRFI to pay commissions higher than the commissions charged by broker-dealers who do not provide such research or “soft-dollar” benefits.

IIM may acquire the following types of research and related products and services from broker-dealers with whom it expects to conduct business: written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts, as well as discussions with research personnel; financial and industry publications; market data-related services; statistical and pricing services utilized in the investment process; and databases and other technical services utilized in the investment management process. IIM may direct certain NYCRFI transactions to a particular broker-dealer in return for research and other “soft dollar” benefits.

2. BROKERAGE FOR NYCRFI REFERRALS

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

3. DIRECTED BROKERAGE

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

4. AGGREGATE ORDERS FOR VARIOUS NYCRFI ACCOUNTS

IIM only provides advisory services to NYCRFI and therefore does not contemplate aggregating any securities to be purchased or sold for NYCRFI.

In the event that IIM determines to buy or sell the same security on behalf of more than one client in the future, it may, but is under no obligation to (except as provided by the applicable Governing Documents), aggregate (to the extent permitted by applicable law, rule and regulation) the securities to be purchased or sold in order to seek more favorable prices, lower brokerage commissions or more efficient execution.

5. TRADE ERROR POLICY

While it is the policy of IIM to use the utmost care in making and implementing investment decisions on behalf of its NYCRFI, trade errors may inevitably occur. IIM views a trade error as involving an unintentional mistake in placing a trade or in making an investment decision that is not detected until after the trade is settled and for which IIM is responsible. Trade errors include, but are not limited to: (i) purchasing an investment not legally permitted for NYCRFI, or not within NYCRFI’s investment guidelines; (ii) purchasing or selling the wrong investment for NYCRFI; (iii) purchasing or selling an investment for the wrong investment entity; (iv) purchasing the wrong amount of an investment for NYCRFI; or (v) allocating an investment to

the wrong investment entity. A trade error does not include an intentional act, an error that is corrected prior to settlement or an error that is clearly the fault of an unaffiliated third party, such as an executing broker.

To the extent that a trade error occurs, it is the policy of IIM to correct such error as soon as practicable and in such a manner whereby NYCRFI incurs no loss. Because each trade error presents a unique set of facts, each will be resolved on a case-by-case basis. However, when correcting a trade error, IIM shall not: (i) pass the cost of losses on to NYCRFI; (ii) use soft dollar credits with broker-dealers to cover losses; (iii) use Affiliated Investment Entities to correct errors; or (iv) enter into an agreement with an executing broker to absorb any correction costs. Prior to the settlement of a trade, IIM may reverse out a trade error. After settlement of a trade, IIM must ensure that the guidelines detailed above are enforced.

ITEM 13: REVIEW OF ACCOUNTS

A. NYCRFI ACCOUNT REVIEWS

IIM has an Investment Committee, Chief Investment Officers and asset managers for NYCRFI. IIM's Investment Committee and/or asset managers are responsible for recommending acquisitions and dispositions of NYCRFI assets and monitoring and reviewing on an on-going basis the investment portfolio of NYCRFI.

B. CONTENT AND FREQUENCY OF REGULAR REPORTS

An investor in NYCRFI generally receives quarterly and annual financial information for NYCRFI, including, for each quarter, a summary description of (i) each investment, (ii) any material event or development regarding NYCRFI's investments and (iii) each disposition of an investment, during such quarterly period.

ITEM 14: NYCRFI REFERRALS AND OTHER COMPENSATION

A. COMPENSATION RECEIVED BY IIM FOR NYCRFI REFERRALS

IIM does not receive any compensation for the referral of clients or investors to any other managers for the provision of advisory services.

B. COMPENSATION PAID BY IIM OR RELATED PERSON FOR CLIENT REFERRALS

IIM may compensate affiliates for referring a prospective advisory client (or a prospective investor in NYCRFI) to it, at no additional cost to NYCRFI (or investor), and may in the future compensate third parties or affiliates for referring a prospective advisory client (or a prospective investor in NYCRFI) to it, at no additional cost to NYCRFI (or investor). Such referral fees are based on (i) the investment by NYCRFI (or investor) or (ii) a percentage of the Management Fees and/or performance-based compensation earned by IIM or its affiliate. Such referral arrangements will conform to Rule 206(4)-3 under the Advisers Act, including interpretations by the staff of the SEC that Rule 206(4)-3 does not apply to a registered investment adviser's cash payment to a person solely to compensate that person for soliciting investors or prospective investors for, or referring investors or prospective investors to, a pooled investment vehicle managed by the adviser. The prospective advisory client (or prospective investor in NYCRFI) will not pay any portion of any

referral fee and will not pay any additional fees to IIM with respect to the advisory services provided by IIM as a result of such arrangement.

IIM may engage one or more affiliates, rather than an independent third party, to provide certain services to NYCRFI. IIM believes that the use of affiliates to provide such services rather than an independent third party is beneficial to NYCRFI. IIM will monitor the fees charged by each such affiliate to NYCRFI to ensure that they are reasonable relative to the fees charged by independent third party service providers. See also Items 5.C, 8.B and 10.C above.

ITEM 15: CUSTODY

NYCRFI's cash and securities are required to be maintained by a "qualified custodian" in NYCRFI's name, unless the security is otherwise exempt from this requirement (*e.g.*, certain privately offered securities).

Island NYCRF Directives is deemed to have "custody" of the assets of NYCRFI.

The financial statements of NYCRFI are or will be (i) prepared in accordance with GAAP, (ii) audited by an independent accounting firm that is registered with, and subject to regular examination by, the Public Company Accounting Oversight Board ("PCAOB") and (iii) distributed to NYCRFI's investors (a) within 120 days following NYCRFI's fiscal year end and (b) promptly after liquidation. Accordingly, IIM is exempt from the requirements of certain aspects of Rule 206(4)-2 under the Advisers Act for NYCRFI.

In that event that one or more of the Custody Requirements are not satisfied for NYCRFI, then NYCRFI will (i) have an independent accountant that is registered with, and subject to examination by, the PCAOB verify the cash and securities of NYCRFI by a surprise examination conducted on an annual basis pursuant to a written agreement, (ii) ensure that certain securities that would otherwise be exempt are held by a "qualified custodian," (iii) provide notice containing certain information regarding NYCRFI's "qualified custodian(s)" and (iv) have a reasonable basis, after due inquiry, for believing that NYCRFI's "qualified custodian" sends an account statement, at least quarterly, to NYCRFI (and to each of its investors) identifying the amount of cash and each security of NYCRFI held by such "qualified custodian" at the end of the period and each transaction by NYCRFI in such account during that period. The independent accountant will make certain disclosures with the SEC and notify the SEC within one business day of any material discrepancies discovered during the course of the surprise custody examination. To the extent IIM sends any statements directly to NYCRFI or its investors, such statements include a legend that cautions NYCRFI and each of its investors to compare the statements sent by IIM with any statements sent by NYCRFI's "qualified custodian(s)."

ITEM 16: INVESTMENT DISCRETION

IIM has the authority to recommend each investment decision for NYCRFI, in accordance with the Allocation Policies and Procedures, and subject to compliance with the investment criteria, policy and guidelines contained in the Governing Documents. Such criteria, policy and guidelines include, among other things: approval by NYCRFI's Investment Committee; and approval by NYCRFI's limited partners or Advisory Committee with respect to any affiliate (principal or cross) transaction between NYCRFI, on the one hand, and IIM, an affiliate or an Affiliated Investment Entity, on the other hand.

IIM has discretion to recommend the investments to be acquired and/or sold, the amount of NYCRFI capital to be invested, the broker-dealers to execute transactions and the price and timing of NYCRFI's purchases and sales.

ITEM 17: VOTING NYCRFI SECURITIES

NYCRFI does not often receive proxies and, accordingly, IIM is generally not called upon to vote proxies. If IIM were to receive a proxy on behalf of NYCRFI and is requested or required to vote a proxy, IIM will consider, among other things, the financial interests of NYCRFI and the recommendation of management on the particular issue.

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

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

ITEM 18: FINANCIAL INFORMATION**A. PREPAYMENT**

IIM does not require or solicit prepayment in advance.

B. FINANCIAL CONDITION DISCLOSURES

IIM is not aware of any financial condition or commitment that is reasonably likely to impair its ability to satisfy its contractual and fiduciary commitments to its NYCRFI.

C. BANKRUPTCY

IIM has never been the subject of a bankruptcy proceeding.

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.

MISCELLANEOUS: ADDITIONAL INFORMATION**A. BUSINESS CONTINUITY PLAN**

IIM is covered under C-III's Joint Business Continuity Plan. C-III's Joint Business Continuity Plan is drafted with the expectation that in the event of a significant business disruption, C-III and/or its affiliates (including IIM) shall, as quickly as practicable and to the extent reasonably feasible given the scope and severity of the significant business disruption: safeguard each Supervised Person and property; recover and resume business operations; make financial and operational assessments; protect its books and records, including NYCRFI and investor information; and assist investors to transact business.

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

B. PRIVACY POLICIES AND PROCEDURES

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

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