



ITEM 1: COVER PAGE

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

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DATE OF BROCHURE: MARCH 19, 2020

WWW.RESOURCEAMERICA.COM

This Brochure provides information about the qualifications and business practices of Exantas Capital Manager Inc. (“**XCM**”). If you have any questions about the contents of this Brochure, please contact Lawrence S. Block, XCM’s Chief Compliance Officer, directly at (212) 705-5090 or by e-mail at lblock@resourceamerica.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 XCM 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 XCM's previous brochure dated March 26, 2019 as follows:

1. Removes C-III Asset Management LLC ("**C3AM**") as a financial industry affiliate of XCM and removes references to C3AM providing special servicing services to XCM and/or certain CMBS trusts and CRE-CDO issuers in which XCM invests;
2. Removes Realcapitalmarkets.com, LLC ("**RCM**") as a financial industry affiliate of XCM;
3. Removes U.S. Residential Group LLC ("**USRG**") as a financial industry affiliate of XCM;
4. Reflects that Resource Financial Fund Management, LLC ("**RFFM**") (i) is no longer an SEC-registered investment adviser (it de-registered effective December 31, 2019) and (ii) is no longer a financial industry affiliate of XCM;
5. Reflects that Resource Financial Institutions Group, LLC ("**RFIG**") (i) is no longer a "relying adviser" of RFFM, (ii) is no longer an SEC-registered investment adviser (it de-registered effective December 31, 2019) and (iii) is no longer a financial industry affiliate of XCM;
6. Reflects that Ischus Capital Management, LLC ("**Ischus**") (i) is no longer a "relying adviser" of RFFM, (ii) is no longer an SEC-registered investment adviser (it de-registered effective December 31, 2019) and (iii) is an SEC "exempt reporting adviser" effective December 23, 2019 (and remains a financial industry affiliate of XCM); and
7. Updates to certain risk factors and potential and actual conflicts of interest.

*The information set forth in this Brochure is qualified in its entirety by reference to Exantas Capital Corp's ("**XAN**") governing and/or disclosure documents. In the event of a conflict between the information set forth in this Brochure and the information in XAN's governing and/or disclosure documents, the disclosures in XAN's governing and/or disclosure documents shall take precedence.*

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ITEM 4: ADVISORY BUSINESS

A. BACKGROUND

Exantas Capital Manager Inc., a Delaware corporation, is an SEC-registered investment adviser that began providing advisory services in 2005. XCM is a wholly-owned subsidiary of Resource Financial Fund Management, LLC (“**RFFM**”), which is a wholly-owned subsidiary of Resource America, Inc. (“**RAI**”), 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, including, but not limited to, (i) a publicly-traded REIT that invests in real estate and real estate-related debt and/or equity investments, (ii) public non-traded REITs that invest in real estate and real estate-related debt and/or equity investments, (iii) investment companies registered under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”), (iv) private investment vehicles that invest in real estate and real estate-related debt and/or equity investments and (v) securitization vehicles.

RAI is a wholly-owned subsidiary of C-III Capital Partners LLC (“**C-III Parent**”), a Delaware limited liability company. C-III Parent was formed in 2010 and owns a number of operating entities 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 Parent is controlled, indirectly, by Island Capital Group LLC (“**ICG**”), a Delaware limited liability company of which Andrew L. Farkas is the managing member. ICG is a private real estate merchant banking firm formed in 2003.

B. TYPES OF ADVISORY SERVICES OFFERED

XCM provides portfolio management services exclusively to Exantas Capital Corp., a publicly-traded REIT (NYSE: XAN) that focuses on investments in commercial real estate, commercial real estate-related assets and, to a lesser extent, residential real estate and commercial finance assets. Greater detail regarding XAN, its portfolio holdings, and risks associated with those investments may be found on XAN’s website, www.exantas.com, or on the SEC’s website, www.sec.gov.

C. INVESTMENT GUIDELINES AND PARAMETERS

XCM provides investment advisory services to XAN in accordance with a management agreement (the “**Agreement**”) between XCM and XAN. The Agreement sets forth the specific services that will be provided by XCM on behalf of XAN. The Agreement requires XCM to manage the business affairs of XAN in conformity with the policies and investment guidelines established by XAN’s board of directors. XCM’s role as manager is under the supervision and direction of XAN’s board of directors. Pursuant to the Agreement, XCM is responsible for the selection, purchase and sale of portfolio investments, XAN’s financing activities, and providing XAN with investment advisory services. Investment advice is provided directly to XAN, and not individually to its shareholders.

D. WRAP FEE PROGRAMS

XCM does not participate in wrap fee programs.



E. CLIENT ASSETS UNDER MANAGEMENT

As of December 31, 2019, XCM had \$2,454,326,000 of assets under management. All assets under management are managed on a discretionary basis.

ITEM 5: FEES AND COMPENSATION

A. COMPENSATION

XCM receives a monthly base management fee (the “**Management Fee**”) equal to 1/12th of the amount of XAN’s equity (as defined in the Agreement) multiplied by 1.50%.

XCM also charges a quarterly performance fee (the “**Incentive Fee**”) to XAN calculated as follows: (A) 20% of the amount by which XAN’s Core Earnings (as defined in the management agreement) for a quarter exceeds the product of (i) the weighted average of (x) the per share book value of XAN’s common shares at September 30, 2017 (subject to adjustments for certain items of income or loss from operations or gain or loss on resolutions of the Plan assets from October 1, 2017 through December 31, 2018) and (y) the per share price (including the conversion price, if applicable) paid for XAN’s common shares in each offering (or issuance upon the conversion of convertible securities) by XAN subsequent to September 30, 2017, multiplied by (ii) the greater of (x) 1.75% or (y) 0.4375% plus one-fourth of the average ten-year U.S. Treasury Rate for such quarter; multiplied by (B) the weighted average number of common shares outstanding during such quarter; subject to adjustment (a) to exclude events pursuant to changes in GAAP or the application of GAAP as well as non-recurring or unusual transactions or events, after discussion between XCM and XAN’s independent directors and approval by a majority of such independent directors in the case of non-recurring or unusual transactions or events, and (b) to deduct an amount equal to any fees paid directly by a taxable REIT subsidiary (a “**TRS**”), (or any subsidiary thereof) to employees, agents and/or affiliates of XCM with respect to profits of such TRS (or subsidiary thereof) generated from the services of such employees, agents and/or affiliates, the fee structure of which shall have been approved by a majority of XAN’s independent directors and which fees may not exceed 20% of the net income (before such fees) of such TRS (or subsidiary thereof). The Incentive Fee is calculated and payable quarterly to XCM to the extent it is earned. Up to 75% of the Incentive Fee is payable in cash and at least 25% is payable in the form of an award of common stock of XAN.

XCM also gets reimbursed from XAN for the following:

- Per-loan underwriting and review fees in connection with valuations of and potential investments in certain subordinate commercial mortgage pass-through certificates, in amounts approved by a majority of the independent directors;
- Reimbursement of expenses for personnel of XCM or its affiliates for their services in connection with the making of fixed-rate commercial real estate loans by XAN, in an amount equal to one percent of the principal amount of each loan made;
- Reimbursement of out-of-pocket expenses and certain other costs incurred by XCM and its affiliates that relate directly to XAN and its operations; and
- Reimbursement of XCM’s and its affiliates’ expenses for (i) the wages, salaries and benefits of XAN’s Chief Financial Officer, (ii) a portion of the wages, salaries and benefits



of accounting, finance, tax and investor relations professionals, in proportion to such personnel's percentage of time allocated to our operations, and (iii) personnel principally devoted to its ancillary operating subsidiaries.

For a more detailed discussion of XCM's fees and compensation, please refer to a copy of XAN's SEC Form 10-K for the fiscal year ended December 31, 2019 available on XAN's website, www.exantas.com, or on the SEC's website, www.sec.gov.

B. PAYMENT OF FEES

Management Fees are paid monthly in arrears; Incentive Fees are paid quarterly by XAN.

C. ADDITIONAL COSTS AND EXPENSES

Other costs and expenses payable by XAN include, but are not limited to (i) legal, tax, accounting, consulting, auditing, administrative and other similar services; (ii) costs associated with the establishment and maintenance of any credit facilities or other indebtedness on behalf of XAN; (iii) expenses incurred in connection with any communications to the holders of securities of XAN or its subsidiaries; (iii) allocable costs associated with any computer software or hardware, electronic equipment or purchased IT services from third party vendors that is used for XAN; (iv) expenses of XCM and its affiliates for travel on XAN's behalf; (v) any out-of-pocket expenses incurred by XCM in connection with the purchase, financing, refinancing, sale or other disposition of an investment on behalf of XAN; (vi) custodial and transfer agent fees; (vii) taxes and license fees; (viii) insurance costs incurred in connection with XCM's management of XAN; (ix) servicing and special servicing fees; (x) appraisal fees; and (xi) costs and expenses of maintaining the operations of XAN and maintaining, acquiring, financing, hedging and disposing of its investments (to the extent not paid for or reimbursed by such investment); fees and other governmental charges levied against XAN; research fees (including data and information service subscriptions, related system and services from data providers and data management software); fees for outside services (including valuation and pricing services); expenses associated with forming and operating any related investment vehicle; financial modeling software and financial modeling services; travel expenses (including, without limitation, expenses for chartered or first class travel, and meals and entertainment expenses); brokerage commissions; liquidation expenses; the costs of any services provided by XAN's general partner or its affiliates (to the extent provided for in a XAN's governing documents); expenses associated with the preparation and distribution of reports, financial statements, tax returns and K-1s to the Fund's investors; indemnification and other unreimbursed expenses; and any extraordinary expenses to the extent not reimbursed or paid by insurance.

Costs and expenses for which XAN is responsible are set forth in the Agreement. All such expenses incurred by XCM on behalf of XAN must be documented and submitted to XAN on a monthly basis.

D. REFUNDS FOR FEES CHARGED IN ADVANCE

XCM does not receive fees in advance.



E. SUPERVISED PERSONS

Neither XCM nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or other fees from the sale of mutual funds.

ITEM 6: PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT

XCM is generally entitled to receive performance-based compensation (fees based on a share of capital gains on or capital appreciation of assets) in the form of the Incentive Fee as set forth in the Agreement, and in conformity with Rule 205-3 promulgated under the Advisers Act of 1940 (the “**Advisers Act**”). Further, XCM’s Supervised Persons may manage other accounts to which performance fees are charged.

ITEM 7: TYPES OF CLIENTS

XAN is the only investment advisory client of XCM.

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

A. METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

XCM’s objective is to provide XAN and its shareholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with XAN’s investment strategies. XCM, on behalf of XAN, has financed a substantial portion of XAN’s portfolio investments through borrowing strategies seeking to match the maturities and re-pricing dates of XAN’s financings with the maturities and re-pricing dates of those investments, and have sought to mitigate interest rate risk through derivative instruments.

XCM, on behalf of XAN, generates income primarily from the spread between the revenues received from XAN assets and the cost to finance XAN’s ownership of those assets, including corporate debt and from hedging interest rate risks. XCM, on behalf of XAN, generates revenues from the interest and fees XAN earns on its whole loans, A-notes, B-notes, mezzanine debt securities, preferred equity investments in commercial real estate, commercial mortgage-backed securities (“**CMBS**”) and investments in trust preferred securities. XCM uses leverage to enhance XAN’s returns and has financed each of XAN’s different asset classes with different degrees of leverage. The cost of borrowings that finance XAN’s investments is a significant part of its expenses. XAN’s net income depends on XCM’s ability to control these expenses relative to XAN’s revenue. XCM has historically financed XAN’s commercial real estate loan portfolio with repurchase agreements as a short-term financing source and securitizations and, to a lesser extent, other term financing as long-term financing sources. XCM expects to continue to use these financing sources into the near term future. XCM uses derivative financial instruments to hedge a portion of the interest rate risk associated with its borrowings. XCM generally seeks to minimize interest rate risk with a strategy that is expected to result in the least amount of volatility under generally accepted accounting principles while still meeting its strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls and options.

With respect to real estate debt investments, XCM maintains proprietary financial models used to evaluate prospective investments and monitor existing holdings. The maintenance of these models is based, in part, on the ongoing surveillance and collection of credit performance statistics and



updated collateral information from various affiliate and third-party sources, including issuers, broker-dealers, rating agencies, governmental agencies and data vendors. In addition, XCM's proprietary database of information includes financial performance, sponsorship, leasing status, tenancy, supply/demand dynamics and physical condition of the real estate assets underlying the CMBS trust, the issuer of the commercial real estate collateralized debt obligations ("CRE-CDOs") or loans in which XAN invests (and may invest in the future). XCM 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.

In addition, XCM 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 XCM's affiliated real estate services companies.

B. MATERIAL RISKS

Investments made by XAN, or investments in XAN, are speculative and involve a high degree of risk.

Below is a summary of certain risks associated with investments made by XAN, and investments in XAN. For a more detailed discussion of risks related to XAN's financing, investments, and operations, please refer to a copy of XAN's SEC Form 10-K for the fiscal year ended December 31, 2019 available on XAN's website, www.exantas.com, or on the SEC's website, www.sec.gov.

NATURE OF INVESTMENTS

Investments by XAN, or an investment in XAN, generally require a long-term commitment with no certainty of return.

XAN generally makes investments in real estate-related assets (including CMBS and CRE-CDO tranches) that are experiencing or are expected to experience severe financial difficulties that may never be overcome. Because XAN will only make a limited number of investments and because many of the investments will involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to XAN and the investors in XAN. Although an investment by XAN may generate some current income, the return of capital and the realization of gains, if any, from such investment generally will occur, in the case of a real estate debt investment, when the borrower repays the related loan (at maturity or sooner) or, in the case of a CMBS or CRE-CDO investment, when the borrowers repay the loans (at maturity or sooner) underlying the CMBS trust or CRE-CDO issuer or XAN sells the CMBS or CRE-CDO 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 period 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 XAN or the investors in XAN. Because XAN may only make a limited number of investments and because many of the investments involve a high degree of risk, poor performance by a few XAN investments could severely affect the total returns to XAN and the investors in XAN.



REAL ESTATE INVESTMENTS

General

The performance of XAN's real estate-related investments will be significantly affected by fluctuations in the value of the underlying properties collateralizing the loans held by XAN and the properties collateralizing the loans underlying a XAN's investments in CMBS and CRE-CDO tranches, and the cash flows generated by those properties. If the underlying properties do not generate revenues sufficient to meet operating expenses, XAN's cash flow and the ability to make distributions to XAN's investors will be adversely affected. The factors affecting the cash flows generated by the underlying properties collateralizing the loans held by XAN and the properties collateralizing the loans underlying a XAN's investments in CMBS and CRE-CDO tranches, 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; and/or
- 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

XAN's strategy may be based, in part, upon the premise that interests in real estate businesses and assets will be available for purchase by XAN at prices that XCM considers favorable. Further, XAN's strategy may rely, in part, upon market recoveries continuing during the term of an investment. 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 XCM.

Declines in Real Estate Values

Risks associated with investing in 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-related investments acquired by XAN 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



XAN. 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 XAN from its 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.

COMMERCIAL MORTGAGE LOANS AND MEZZANINE LOANS

Commercial mortgage loans are secured by, and mezzanine loans depend on, the performance of the underlying property and are subject to risks of delinquency and foreclosure, and risks of loss, that are greater than similar risks associated with loans made on the security of single-family residential properties. The ability of a borrower to repay a loan secured by or dependent upon an income-producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower’s ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things:

- tenant mix, success of tenant businesses, tenant bankruptcies and 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;
- the occurrence of any uninsured casualty at the property;
- changes in national, regional or local economic conditions and/or the conditions of specific industry segments in which the lessees may operate;
- 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;



- the availability of debt or equity financing;
- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation and zoning laws; and
- acts of God, terrorism, pandemic, social unrest and civil disturbances.

XAN risks loss of principal on defaulted mortgage loans it holds to the extent of any deficiency between the value XAN can realize from the sale of the collateral securing the loan upon foreclosure, and the loan's principal and accrued interest. Moreover, foreclosure of a mortgage loan can be an expensive and lengthy process which could reduce the net amount XAN can realize on the foreclosed mortgage loan. In a bankruptcy of a mortgage loan borrower, the mortgage loan 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.

COMMERCIAL MORTGAGE BACKED SECURITIES

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

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

COMMERCIAL REAL ESTATE COLLATERALIZED DEBT OBLIGATIONS

XAN invests (and may in the future invest) in CRE-CDOs, which are, generally, limited recourse obligations of the issuer thereof payable solely from the collateral owned by such issuer or the



proceeds thereof. CRE-CDOs are subject to similar risks and provisions as commercial mortgage loans, B-Notes and CMBS, including:

- limited liquidity and secondary market availability;
- the possibility that income of a related borrower may be insufficient to meet its debt service;
- declining creditworthiness and potential for insolvency of the borrower during periods of economic downturn;
- spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received; and
- subordination to the prior claims of other senior lenders and creditors in the event that a CRE-CDO includes loans with terms that, upon certain conditions, allow the spread subordinated.

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

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

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

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

BELOW INVESTMENT GRADE (HIGH YIELD OR JUNK BOND) SECURITIES

XAN invests (and may in the future invest) in new issue non-rated CMBS tranches and CMBS tranches rated between "B3" and "Ba1", inclusive, by Moody's Investors Service at the time of issuance (or tranches that have an equivalent rating by another rating agency (such as Standard &



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

CMBS INTEREST-ONLY CERTIFICATES

XAN may invest in CMBS interest-only certificates ("**IOs**"). CMBS IOs receive no payment of principal from the underlying mortgage assets. IO class payments are derived by the excess interest that exists due to a higher weighted average coupon on the underlying mortgages than the weighted average coupon on the corresponding CMBS bonds. The notional amount of the IO bonds will equal the certificate balance of all or a portion of the other CMBS classes of the same issuance. The yields to maturity on IOs are very sensitive to the rate of principal payments (including prepayments) and defaults on the related underlying mortgage assets. If the underlying mortgage assets experience greater than anticipated prepayments of principal or defaults, XAN may not fully recoup its initial investment in IOs.

UNRATED INVESTMENTS

XAN invests (and may in the future 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. XAN's acquisition of credit support classes of securitizations (which may be "first loss" classes) that are unrated at the time of acquisition and that have lower ratings incrementally increase the risk of nonpayment or of a significant delay in payments on these classes. The downgrading of an asset may adversely affect the value of the asset and, ultimately, adversely affect the value of XAN's investment. Except as provided in XAN's governing documents, there are no limits on the percentage of unrated or noninvestment grade assets that XAN may hold in its portfolio.

B-NOTES

XAN may make investments in B-notes. A B-note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note owners after payment to the senior note owners. Since each transaction is privately negotiated, B-notes can vary in their structural characteristics and risks. For example, the rights of holders of B-notes to control the process following a borrower default may be limited in certain investments. B-notes are less liquid than other forms of commercial real estate debt investments, such as CMBS, and, as a result, XAN may be able to dispose of underperforming or non-performing B-note investments only at a significant discount to book value.



MEZZANINE DEBT AND OTHER SUBORDINATED DEBT

Subject to maintain XAN's qualification as a REIT and exclusion from regulation under the Investment Company Act, XAN may invest in mezzanine debt, preferred equity, mezzanine or other subordinated tranches of CMBS, syndicated corporate loans and other ABS. XAN currently has investments in mezzanine debt and preferred equity. These types of investments carry a higher degree of risk of loss than senior secured debt investments such as whole loan investments because, in the event of default and foreclosure, holders of senior liens will be paid in full before mezzanine investors. Depending on the value of the underlying collateral at the time of foreclosure, there may not be sufficient assets to pay all or any part of amounts owed to mezzanine investors. Moreover, mezzanine and other subordinate debt investments may have higher loan-to-value ratios than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, XAN may be subject to agreements restricting or eliminating its rights as a creditor, including rights to call a default, cure a default, foreclose on collateral, and accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments because the ability of obligors of investments underlying the securities to make principal and interest payments may be impaired. In such event, existing credit support relating to the securities' structure may not be sufficient to protect XAN against loss of principal.

PORTFOLIO INVESTMENTS

XAN currently holds, and expects to hold in the future, portfolio investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. XAN values these investments quarterly at fair value as determined under policies approved by the Board of Directors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, XAN's determinations of fair value may differ materially from the values that XAN would have obtained if a ready market for them existed. The value of XAN's common stock will likely decrease if XAN's determinations regarding the fair value of these investments are materially higher than the values that XAN ultimately realizes upon their disposal.

BANK LOANS, ABS AND CORPORATE BONDS

Historically, XAN has invested in syndicated corporate loans, ABS and corporate bonds, subject to maintaining XAN's qualification as a REIT and exclusion from regulation under the Investment Company Act. Syndicated corporate loan investments, ABS investments or corporate bond investments, which are principally backed by small business and syndicated corporate loans, may not be secured by mortgages or other liens on assets or may involve higher loan-to-value ratios than XAN's real estate-related investments. Historically, XAN's syndicated corporate loan investments, ABS investments and corporate bond investments backed by loans have included loans that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which makes repayment of loans dependent upon the borrowers' liquidity or ability to refinance the loans at maturity. Numerous factors affect a borrower's ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower's industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company's financial condition or prospects



may be accompanied by a deterioration in the collateral for the syndicated corporate loan or any ABS or corporate bond backed by such company's loans.

OTHER RISKS RELATED TO XAN'S INVESTMENTS

Financing Risks

Risks of Leverage. XAN's portfolio has been financed in material part through the use of leverage, which may reduce the return on investments and cash available for distribution. XAN's portfolio has been financed in material part through the use of leverage and, as credit market conditions permit, XCM will seek such financing in the future. Using leverage may subject XAN to risks associated with debt financing, including the risks that:

- the cash provided by XAN's operating activities will not be sufficient to meet required payments of principal and interest,
- the cost of financing may increase relative to the income from the assets financed, reducing the income XAN has available to pay distributions, and
- XAN's investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing XAN obtains will not be as favorable as the terms of existing financing.

If XAN is unable to secure refinancing of currently outstanding financing, when due, on acceptable terms, XAN may be forced to dispose of some of its assets at disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to XAN or reduce the cash flow available to meet its debt service obligations or to pay distributions.

Financing that XAN may obtain, and financing it has obtained through CRE debt securitizations, typically requires, or will require, XAN to maintain a specified ratio of the amount of the financing to the value of the assets financed. A decrease in the value of these assets may lead to margin calls or calls for the pledge of additional assets which XAN will have to satisfy. XAN may not have sufficient funds or unpledged assets to satisfy any such calls, which could result in XAN's loss of distributions from and interests in affected CRE debt securitizations, which would reduce XAN's assets, income and ability to make distributions.

Credit Risk Related to Repurchase Agreements, Warehouse Facilities and other Short-term Financings. If XAN accumulates assets for a CRE debt securitizations on a short-term credit facility and do not complete the CRE debt securitizations, or if a default occurs under the facility, the short-term lender will sell the assets and XAN would be responsible for the amount by which the original purchase price of the assets exceeds their sale price, up to the amount of XAN's investment or guaranty. XAN may lose money on its repurchase transactions if the counterparty to the transaction defaults on its obligation to resell the underlying security back to XAN at the end of the transaction term, or if the value of the underlying security has declined as of the end of the term or if XAN defaults on its obligations under the repurchase agreements.

Repurchase Agreements. XAN has entered into repurchase agreements and warehouse facilities and expects in the future to seek additional debt to finance its growth. Lenders typically have the right to liquidate assets securing or acquired under these facilities upon the occurrence of specified events, such as an event of default. XAN is exposed to loss if the proceeds received by the lender



upon liquidation are insufficient to satisfy its obligation to the lender. XAN is also subject to the risk that the assets subject to such repurchase agreements, warehouse facilities or other debt might not be suitable for long-term refinancing or securitization transactions. If XAN is unable to refinance these assets on a long-term basis, or if long-term financing is more expensive than XAN anticipated at the time of the acquisition of the assets to be financed, XAN may be required to liquidate assets.

Counterparty Risk. When engaged in repurchase transactions, XAN generally sells assets to the transaction counterparty and receives cash from the counterparty. The counterparty must resell the assets back to XAN at the end of the term of the transaction. Because the cash XAN receives from the counterparty when XAN initially sells the assets is less than the market value of those assets, if the counterparty defaults on its obligation to resell the assets back to XAN, XAN will incur a loss on the transaction. XAN will also incur a loss if the value of the underlying assets has declined as of the end of the transaction term, as it will have to repurchase the assets for their initial value but would receive assets worth less than that amount. If XAN defaults upon its obligation to repurchase the assets, the counterparty may liquidate them at a loss, which XAN is obligated to repay. Any losses XAN incurs on its repurchase transactions would reduce its earnings and cash available for distribution to its stockholders.

Risks of Financing REIT-Qualifying Assets. XAN has entered into and intend to enter into, sale and repurchase agreements under which XAN nominally sells certain REIT-qualifying assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets. XAN believes that XAN will be treated for U.S. federal income tax purposes as the owner of the assets that are the subject of any such agreement, notwithstanding that XAN may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the Internal Revenue Service, or IRS, could assert that XAN did not own the assets during the term of the sale and repurchase agreement, in which case XAN's ability to qualify as a REIT would be adversely affected. If any of XAN's REIT-qualifying assets are subject to a repurchase agreement and are sold by the counterparty in connection with a margin call, the loss of those assets could impair XAN's ability to qualify as a REIT. Accordingly, unlike other REITs, XAN may be subject to additional risk regarding its ability to qualify and maintain its qualification as a REIT.

CDO Financing. Historically, XAN has financed most of its investments through CRE debt securitizations in which XAN retains the equity interest. Depending on market conditions and credit availability, XAN intends to use CRE debt securitizations to finance its investments in the future. The equity interests of a CRE debt securitization are subordinate in right of payment to all other securities issued by the CRE debt securitization. The equity is usually entitled to all of the income generated by the CRE debt securitization after the CRE debt securitization pays all of the interest due on the debt securities and its other expenses. However, there may be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral which would significantly reduce the value of that interest. Reductions in the value of the equity interests XAN holds in CRE debt securitization, if XAN determines that they are other than temporary, would reduce XAN's earnings. In addition, the liquidity of the equity securities of CDOs is constrained and, because they represent a leveraged investment in the CRE debt securitization's assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

XAN's CRE debt securitizations generally provide that the principal amount of their assets must exceed the principal balance of the related securities issued by them by a certain amount,



commonly referred to as “over-collateralization.” If delinquencies and/or losses exceed specified levels, based on the analysis by the rating agencies (or any financial guaranty insurer) of the characteristics of the assets collateralizing the securities issued by the CRE debt securitization issuer, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. A failure by a CRE debt securitization to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the CRE debt securitization entity, resulting in reduction or elimination of distributions to more junior securities until the over-collateralization requirements have been met or the senior debt securities have been paid in full.

XAN’s equity holdings and, when XAN acquires debt interests in CRE debt securitizations, XAN’s debt interests, if any, generally are subordinate in right of payment to the other classes of debt securities issued by the CRE debt securitization entity. Accordingly, if overcollateralization tests are not met, distributions on the subordinated debt and equity XAN holds in these CDOs will cease, resulting in a substantial reduction in XAN’s cash flow. Other tests (based on delinquency levels, interest coverage or other criteria) may restrict XAN’s ability to receive cash distributions from assets collateralizing the securities issued by the CRE debt securitization entity.

If any of XAN’s CRE debt securitizations fails to meet collateralization or other tests relevant to the most senior debt issued and outstanding by the CRE debt securitization issuer, an event of default may occur under that CRE debt securitization. If that occurs, XAN’s Manager’s ability to manage the CRE debt securitization likely would be terminated and XAN’s ability to attempt to cure any defaults in the CRE debt securitization would be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to XAN in those CDOs for an indefinite time.

If XAN issues debt securities, the terms may restrict XAN’s ability to make cash distributions, require XAN to obtain approval to sell assets or otherwise restrict XAN’s operations in ways that could make it difficult to execute XAN’s investment strategy and achieve XAN’s investment objectives. Any debt securities XAN may issue in the future will likely be governed by an indenture or other instrument containing covenants restricting XAN’s operating flexibility. Holders of senior securities may be granted the right to hold a perfected security interest in certain of XAN’s assets, to accelerate payments due under the indenture if XAN breaches financial or other covenants, to restrict distributions, and to require XAN to obtain their approval to sell assets. These covenants could limit XAN’s ability to operate its business or manage its assets effectively. Additionally, any convertible or exchangeable securities that XAN issues may have rights, preferences and privileges more favorable than those of XAN’s common stock. XAN, and indirectly XAN’s stockholders, will bear the cost of issuing and servicing such securities.

Historically, XAN has financed a significant portion of its assets through the use of CRE debt securitizations, and have accumulated assets for these financings through short-term credit facilities, typically repurchase agreements or warehouse facilities. Depending upon market condition, and, consequently, the extent to which such financing is available to XAN, XAN expects to seek similar financing arrangements in the future. In addition to risks discussed above, these arrangements could expose XAN to other credit risks, including the following:

- An event of default under one short-term facility may constitute a default under other credit facilities XAN may have, potentially resulting in asset sales and losses to XAN, as



well as increasing XAN's financing costs or reducing the amount of investable funds available to XAN.

- XAN may be unable to acquire a sufficient amount of eligible assets to maximize the efficiency of a CRE debt securitization issuance, which would require XAN to seek other forms of term financing or liquidate the assets. XAN may not be able to obtain term financing on acceptable terms, or at all, and liquidation of the assets may be at prices less than those XAN paid, resulting in losses to XAN.
- Using short-term financing to accumulate assets for a CRE debt securitization issuance may require XAN to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, an increase in short-term interest rates at the time that XAN seeks to enter into new borrowings would reduce the spread between the income on XAN's assets and the cost of XAN's borrowings. This would reduce returns on XAN's assets, which would reduce earnings and, in turn, cash available for distribution.

Hedging Strategies. Subject to maintain XAN's qualification as a REIT, XAN may pursue various hedging strategies to seek to reduce its exposure to losses from adverse changes in interest rates. XAN's interest rate hedging activity varies in scope depending upon market conditions relating to, among other factors, the level and volatility of interest rates and the type of assets XAN holds. There are practical limitations on XAN's ability to insulate its portfolio from all of the negative consequences associated with changes in short-term interest rates, including:

- Available hedges may not correspond directly with the interest rate risk or pricing risk against which XAN seeks protection.
- The duration of the hedge may not match the duration of the related asset or liability.
- Hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.
- Losses on a hedge position may reduce the cash available to make distributions to stockholders, and may exceed the amounts invested in the hedge position.
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs XAN's ability to sell or assign its side of the hedging transaction.
- The party owing money in the hedging transaction may default on its obligation to pay.

Hedging against a decline in the values of portfolio positions does not eliminate the possibility of fluctuations in the values of the positions or prevent losses if the values of the positions decline. Hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, XAN may not be able to hedge against an interest rate fluctuation that is generally anticipated by the market.

The success of XAN's hedging transactions will depend on XCM's ability to correctly predict movements of interest rates. Therefore, unanticipated changes in interest rates may result in poorer overall investment performance than if XAN had not engaged in any such hedging transactions.



In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, XAN may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent XAN from achieving the intended hedge and expose it to risk of loss.

Subject to maintain XAN's qualification as a REIT, part of XAN's investment strategy may involve entering into puts and calls on securities or indices of securities, interest rate swaps, caps and collars, including options and forward contracts, and interest rate lock agreements, principally Treasury lock agreements, to seek to hedge against mismatches between the cash flows from its assets and the interest payments on its liabilities. Currently, many hedging instruments are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there may be no applicable requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a counterparty with whom XAN enters into a hedging transaction will most likely result in a default. Default by a party with whom XAN entered into a hedging transaction may result in the loss of unrealized profits and force XAN to cover its resale commitments, if any, at the then current market price. Although generally XAN seeks to reserve the right to terminate its hedging positions, XAN may not always be able to dispose of or close out a hedging position without the consent of the hedging counterparty, and it may not be able to enter into an offsetting contract in order to cover its risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and XAN may have to maintain a position until exercise or expiration, which could result in losses.

Valuation Risks

XAN currently holds, and will hold in the future, portfolio investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. These investments are valued quarterly at fair value as determined under policies approved by XAN's board of directors. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, such determinations of fair value may differ materially from the values that would have obtained if a ready market for them existed.

Regulatory Changes Affecting CMBS

Recent regulatory changes affecting mortgage-backed securities may create uncertainty in the financial markets and make the issuance or holding of mortgage-backed securities more burdensome. In particular, recently adopted rules implementing the credit risk retention requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") require the "sponsor" of any transaction involving the issuance of mortgage-backed securities or other asset-backed securities, subject to certain exceptions, to retain, and to refrain from transferring, selling, conveying to a third party, or hedging, 5% of the credit risk of the assets transferred, sold, or conveyed through the issuance of such securities. Similar rules in Europe restrict the ability of certain financial institutions to purchase securities issued by securitization vehicles for which the relevant sponsor or originator has not retained sufficient credit risk. These requirements have in many cases increased the costs to sponsors and originators of structuring



new issuances of mortgage-backed securities and may in certain cases also increase the costs to other parties of involvement in such transactions, including potentially XAN, which invests (or may in the future invest) in such securities. In addition, the increased costs of doing business may discourage sponsors or originators from issuing such securities in the future, resulting in a less liquid and efficient market for such securities, and potentially limiting the investment choices available to XAN. While certain legacy CMBS and legacy CRE-CDO investments that XAN purchases in the secondary market may not be subject to the new rules, there is no guarantee that additional regulations issued in the future would not negatively affect the value or the liquidity of such investments.

Interest Rate Risks

A significant risk associated with XAN's investment in commercial real estate-related loans, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of XAN's assets would decline. Even if assets underlying investments XAN may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase XAN's interest expense, reducing XAN's net interest spread or possibly result in negative cash flow from those assets. This could result in reduced profitability and distributions or losses.

Competition for Suitable Investments

There are numerous REITs and other financial investors seeking to invest in the types of assets XAN targets. This competition may cause XAN to forgo particular investments or to accept economic terms or structural features that it would not otherwise have accepted, and it may cause XAN to seek investments outside of its currently targeted areas. Competition for investment assets may slow XAN's growth or limit its profitability.

Control over Certain Loans and Investments

The ability to manage XAN's portfolio of loans and investments may be limited by the form in which they are made. In certain situations, XAN may:

- acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements;
- acquire only a minority and/or non-controlling participation in an underlying investment;
- co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third-party management or strategic partners with respect to the management of an asset.

Therefore, XAN may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third-party controlling investors are not involved. XAN's rights to control the process following a borrower



default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with XAN's. A third party partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interest or goals which are inconsistent with XAN's, or may be in a position to take action contrary to XAN's investment objectives. In addition, XAN may, in certain circumstances, be liable for the actions of XAN's third-party partners or co-venturers.

Risks Associated with CMBS Trusts Containing Loans Secured by Non-U.S. Properties

Non-U.S. properties may comprise a small portion of the real property collateral of one or more CMBS trusts in which XAN may invest. An investment in CMBS trusts containing loans secured by non-U.S. properties involves certain risks not typically associated with investing in CMBS trusts containing only loans secured by properties in the U.S., including, but not limited to, risks relating to (i) jurisdiction specific laws, rules, and regulations and variances in the ability of lenders to enforce rights, (ii) the heightened risk of natural disasters in certain jurisdictions and (iii) currency fluctuation. The risks would vary depending upon the jurisdiction of each non-U.S. property.

Geographic, Sector, Property-Type and Sponsor Concentrations

XAN may have material geographic concentrations related to its direct or indirect investments in real estate loans and properties. XAN may also have material concentrations in the property types and industry sectors that are in its loan portfolio. Where XAN has any kind of concentration risk in its investments, XAN may be affected by sector-specific economic or other problems that are not reflected in the national economy generally or in more diverse portfolios. An adverse development in that area of concentration could reduce the value of XAN's investment and its return on that investment and, if the concentration affects a material amount of XAN's investments, impair its ability to execute its investment strategies successfully, reduce its earnings and ability to make distributions.

Cybersecurity Risk

XCM, XAN and its service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the investors in XAN, despite the efforts of XCM and such service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to investors in XAN. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of XCM, XAN and its service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of XCM's systems to disclose sensitive information in order to gain access to XCM's data or that of XAN or the XAN's investors. A successful penetration or circumvention of the security of XCM's systems could result in the loss or theft of XAN's or an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause XCM, XAN, the investors of XAN or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.



CONFLICTS OF INTEREST

Broad and Wide-Ranging Activities

Affiliates of XCM engage in a broad spectrum of activities, including, but not limited to, financial advisory services, underwriting, financing, capital markets, special and primary commercial loan servicing, sponsoring and managing private investment funds, separate accounts, managing and administering CRE-CDOs, real estate services and other activities. In the ordinary course of its business, XCM engages in activities where its interests or the interests of its affiliates may conflict with the interests of XAN.

Affiliate (Principal or Cross) Transactions

XCM generally does not engage in transaction in which XAN acquires investments from, and/or sells investments to, XCM, its affiliates or clients of its advisory affiliates. Notwithstanding the foregoing, if XCM does engage in such activities in the future, all such transaction shall be done in accordance with the Advisers Act and the applicable investment management agreement(s). See Item 11 below for more information regarding such transactions.

Conflicts Affecting the Acquisition of Investments

XAN seeks (and may in the future seek) opportunities to invest in the unrated or certain non-rated tranches of securities (each, a B-Piece) issued by CMBS trusts. Because the B-Piece represents the “first loss position” or riskiest portion of the trust, the buyers of the senior CMBS tranches typically depend on the B-Piece buyer to conduct due diligence on the underlying loans expected to be contributed to the CMBS trust in the securitization. In such cases, XCM (as the investment adviser to XAN) will utilize the services of C-III Parent to analyze the loans and negotiate with the issuer to exclude certain loans determined to be too risky. If either C-III Commercial Mortgage LLC (“**C-III Commercial Mortgage**”), a wholly-owned subsidiary of C-III Parent and an affiliate of XCM, or XAN has contributed or seeks to contribute one or more loans to the same CMBS trust, XCM (as the investment adviser for XAN) may have a conflict in analyzing the underlying loans to be contributed by C-III Commercial Mortgage or XAN and determining whether to request that the issuer exclude any of such loans from the securitization.

XCM and its affiliates also receive (and may in the future receive) indirect benefits from certain investments made by XAN. The governing documents of legacy CMBS trusts and CRE-CDO issuers grant to the controlling class certificateholder certain Purchase Rights.

Other Activities of XCM

Except as limited by the Agreement, XCM and its directors, members, partners, shareholders, officers, employees, agents and affiliates (collectively, the “**Affiliated Parties**”) are and may conduct any other business, whether or not such business is in competition with XAN. Without limiting the generality of the foregoing, the Affiliated Parties are or may in the future act as investment adviser or investment manager for others, are or may in the future manage funds, separate accounts or capital for others and are or may in the future serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms (such other entities, “**Affiliated Investment Vehicles**”). Such Affiliated Investment Vehicles have or may in the future have investment objectives or implement investment strategies similar to or different from those of XAN. There is no limit to the number



of Affiliated Investment Vehicles that are (or may in the future be) managed or advised by any of the Affiliated Parties.

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

Allocation of Investment Opportunities to XCM

Affiliates of XCM are under no obligation to offer investment opportunities of which they become aware to XAN or to account to XAN for any such transaction or any benefit received by them from any such transaction or to inform XAN of any investments before offering such investments to other funds or accounts (other than proprietary accounts) that XCM's affiliates manage or advise. Furthermore, affiliates of XCM may make investments on behalf of any account that they manage or advise without offering the investment opportunity to XAN. Affiliates of XCM have no affirmative obligation to offer any investments to XAN or to inform XAN of any investments before offering such investments to other funds or accounts (other than proprietary accounts) that such affiliates manage or advise.

Certain investment opportunities with limited availability may be appropriate for XAN, as well as one or more clients managed by affiliates of XCM, or C-III Parent for one or more of its proprietary investment accounts or "balance sheet" account. The Chief Investment Officer or Portfolio Manager of the client sourcing the investment opportunity, or the Chief Investment Officer of C-III Parent, determines whether a particular opportunity with limited availability is appropriate for one or more clients, as well as C-III Parent. Such determination is based on, among other criteria, each client's or C-III Parent's, as applicable, investment objective(s) and strategy(ies), investment restrictions and guidelines, cash position, liquidity requirements, applicable tax and regulatory considerations and exclusivity or priority to particular types of investments granted to one or more investment entities and entered into during certain time periods, if any. Neither account performance nor fee structure are considered in determining the allocation of investment opportunities.

C-III Parent and XCM have adopted policies and procedures with respect to the allocation of investment opportunities to XAN, each client managed by affiliates of XCM, and each C-III Parent proprietary investment account or "balance sheet" account (the "**Allocation Policies and Procedures**"). The policy of C-III Parent and each investment manager is to make allocation determinations for each investment opportunity in accordance with the provisions of the



Allocation Policies and Procedures. In doing so, C-III Parent and each investment manager shall conduct themselves in a manner consistent with applicable ethical and fiduciary standards.

It is the policy of C-III Parent and its subsidiaries to treat its clients fairly and equitably in the allocation of investment opportunities and transactions. Investment allocation requirements may also be set forth in a client's governing documents and/or other instruments under which a client was established, such as a limited partnership or limited liability company agreement, by-laws, trust agreement, private placement memorandum, prospectus, investment management agreement or side letter. Existing and prospective investors in a client that are reasonably expected to be materially adversely affected by the investment restrictions set forth in another client's governing document shall be notified of and, where required, shall have consented to, such investment restrictions.

Allocation determinations should not favor C-III Parent over a client, or one client over another, or be based on factors that could appear to provide preferential treatment (e.g., such determinations should not be based upon a client's fee structure, including with respect to any performance-based compensation).

C-III Parent always gives priority to a client over C-III Parent with respect to any such investment opportunity, as set forth in the Allocation Policies and Procedures. C-III Parent is not permitted to participate in such investment opportunity unless (1) each applicable client's investment needs related to such investment opportunity have been fully satisfied and (2) any required consent has been obtained in accordance with the Allocation Policies and Procedures and the applicable client's governing documents.

Transactions with Strategic Investors

XCM and its affiliates have engaged (and may in the future engage) in transactions, including co-investment opportunities and joint venture arrangements with respect to real estate equity and debt investments, with XAN, investors in C-III Parent and/or its affiliates, investors in pooled investment vehicles managed by affiliates of XCM, and joint venture partners in real estate equity investments or others with which XCM and/or its affiliates has (and may in the future have) a current or prior relationship (collectively, "**Strategic Investors**"). The nature of such transactions can be diverse and may include benefits relating to XAN or and its investments. Moreover, certain Strategic Investors may provide services (e.g., as operating advisor, property manager or otherwise) to real estate equity investments owned by XAN.

Gifts and Events

In order to provide quality service, XCM establishes, maintains and enhances relationships with professionals in the real estate industry, such as attorneys, consultants, title companies and other service providers and professionals (collectively, "**Relationship Parties**"). XCM, 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 outdoor outings and other entertainment and recreational activities, and may give or receive gifts related to attendance or participation in such activities (collectively, "**Events**"). XCM's subsequent selection and retention of such Relationship Parties as service providers could be viewed as a form of reimbursement for attending such Events, and XCM may have an incentive to select service providers based on the expectation of receiving gifts or invitations to future Events. Notwithstanding that potential conflict of interest, XCM has adopted policies and procedures



designed to help prevent any Event from influencing its decision to hire or retain a service provider or to engage in any transaction on behalf of XAN. XCM's policies and procedures require gifts and entertainment valued in excess of certain thresholds to be pre-approved in writing by its Chief Compliance Officer.

POSSESSION OF NONPUBLIC INFORMATION

XCM, its affiliates, employees and Supervised Persons may from time to time obtain nonpublic information regarding certain issuers or other investment opportunities.

XCM has adopted and implemented policies and procedures for itself, XAN and its employees and Supervised Persons with respect to purchasing and selling securities while in possession of nonpublic information. Nonetheless, XAN may face, as a result of securities laws prohibition on trading on the basis of material nonpublic information, certain restrictions on its ability to pursue a transaction. In addition, XAN may enter into a transaction involving securities, participations, assignments or other investments in which it may be deemed to be in possession of material nonpublic information.

In no event should this Brochure be considered to be an offer of interests in XAN or relied on in determining to invest in XAN. 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 XCM 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 and/or disclosure documents for XAN.

ITEM 9: DISCIPLINARY INFORMATION

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

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.

A. REGISTERED BROKER-DEALER OR REGISTERED REPRESENTATIVE

- (1) Resource Securities LLC ("**RS**"), a wholly owned subsidiary of RAI, is registered as a broker-dealer with the SEC, all 50 states and the District of Columbia, and is a member of the Financial Industry Regulatory Authority ("**FINRA**"). RS 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 funds registered under the Investment Company Act, that operate as interval funds.

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



- (2) Anubis Securities LLC (“**Anubis**”), an affiliate of C-III Parent indirectly owned by ICG, is registered as a broker-dealer with the SEC, all 50 states and the District of Columbia, and is a member of FINRA. Anubis served as placement agent with respect to the offering of interests in various pooled investment vehicles sponsored by C-III Parent, 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.

Certain of C-III Parent’s management persons or employees of C-III Parent’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 C-III Parent’s policies and procedures.

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

XAN is an exempt commodity pool operator.

Resource Real Estate, LLC (“**RRE**”), a wholly-owned subsidiary of RAI, is an exempt commodity pool operator with respect to Resource Real Estate Diversified Income Fund (the “**Diversified Income Fund**”), a closed-end interval fund registered as an investment company under the Investment Company Act.

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 XCM’s management persons or employees of XCM’s affiliates are providing (or may in the future provide) services for XAN, RRE and RAA.

C-III HY Directives III LLC (“**HY Directives III**”) is an exempt commodity pool operator for C-III High Yield Real Estate Debt Fund III L.P.

C-III HY Directives IV LLC is an exempt commodity pool operator for C-III High Yield Real Estate Debt Fund IV L.P. (“**HYREDF IV**”).

One of C-III IM’s management persons, who is the sole director of C-III High Yield Real Estate Debt Fund IV TIER Holdings Inc. (“**HY IV TIER Holdings**”), which is a wholly-owned subsidiary of HYREDF IV, is an exempt commodity pool operator for HY IV TIER Holdings.

Certain of XCM’s management persons or employees of XCM’s affiliates are providing (or may in the future provide) services for HY Directives III, HY Directives IV and HY IV TIER Holdings.

C. OTHER RELATIONSHIPS OR ARRANGEMENTS

XCM has other financial industry affiliations and activities (described below), and XCM 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, XAN, which may present certain conflicts of interest as described below.



Ischus Capital Management, LLC (“**Ischus**”), an indirect-wholly owned subsidiary of RAI, is an SEC “exempt reporting adviser” that manages CDO issuers that primarily hold investments in structured finance products with a focus on asset-backed securities, residential mortgage-backed securities and CMBS securities. CDOs managed by Ischus are largely static and generally do not invest in the same asset classes as the investment vehicles managed by XCM. This relationship does not cause any material conflicts of interest.

RRE, an affiliate of XCM, is an SEC-registered investment adviser that provides investment advisory services to the Diversified Income Fund, a closed-end interval fund registered as an investment company under the Investment Company Act. The Diversified Income Fund invests primarily in the equity and debt securities of public, private and non-traded real estate investment trusts, real estate operating companies, private real estate investment funds, and other investment vehicles that invest principally in real estate related industry securities. RRE is an exempt commodity pool operator in its capacity as investment adviser to Resource Real Estate Diversified Income Fund. XCM and RRE (as manager of the Diversified Income Fund) have separate investment teams and generally do not seek to invest in similar opportunities. This relationship does not cause a material conflict of interest.

RAA, an affiliate of XCM, is a 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. The Credit Income Fund invests in various tranches of loans, corporate credit, and structured products. RAA is an exempt commodity pool operator in its capacity as investment adviser to Resource Credit Income Fund. XCM and RAA have separate investment teams and generally do not seek to invest in similar opportunities. This relationship does not cause a material conflict of interest.

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

C-III Investment Management, a wholly-owned subsidiary of C-III Parent, is an SEC-registered investment adviser that began providing investment advisory services in 2011. C-III Investment Management serves as the investment manager, or investment advisor to the managing member or general partner (as applicable) of various pooled investment vehicle clients.

Certain affiliates of C-III Investment Management provide investment advisory services and are considered “relying advisers” of C-III Investment Management (C-III Investment Management 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 C-III Investment Management, 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 C-III Investment Management, serves as a sub-advisor to the non-affiliated investment manager of a separate account.



Certain other affiliates of C-III Investment Management serve as general partners or managing members of pooled investment vehicle clients and rely on C-III Investment Management's registration as an investment adviser in accordance with the Letter dated December 8, 2005 from the SEC to the American Bar Association Subcommittee on Private Investment Entities.

NAI Global Capital Markets ("NAI GCM"), formerly known as C-III Realty Services, a wholly-owned subsidiary of C-III Parent, 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.

New America Network Inc., a wholly-owned subsidiary of C-III Parent, is a global network of independent commercial real estate brokerage firms, each of which is appropriately licensed. NAI is licensed as a real estate brokerage firm in Pennsylvania. NAI Global of New York City, Inc. is licensed as a real estate brokerage firm in New York.

ICG Realty LLC, an affiliate of C-III Parent owned by ICG, is licensed as a real estate brokerage firm in New York and provides commercial real estate brokerage services.

Resource Capital Partners, LLC, an indirect wholly-owned subsidiary of RAI, serves as the general partner for a number of private investment funds that invest in real estate equity.

Resource Real Estate Funding, LLC. ("RREF"), a wholly owned subsidiary of RRE, originates and manages all of the commercial whole loans for XAN. RREF is licensed as a finance lender in California.

C-III Commercial Mortgage, a wholly-owned subsidiary of C-III Parent, and its wholly-owned subsidiary, C-III Mortgage Funding LLC, are principally engaged in the origination of commercial real estate mortgage loans. C-III Commercial Mortgage and C-III Mortgage Funding are licensed as finance lenders in California. C-III Commercial Mortgage is licensed as a Mortgage Banker in Nevada.

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

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

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

A. CODE OF ETHICS & CONDUCT OF SUPERVISED PERSONS

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



XCM'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 XAN's investments or that are involved in making recommendations to XAN (or who have access to such recommendations) (each, an "**Access Person**") will not interfere with making and implementing decisions in the best interest of XAN, 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 XAN first and prohibits a Supervised Person from taking personal advantage of an opportunity that belongs to XAN;
- 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 house;
- requires each Access Person to disclose upon hire and each quarter thereafter all securities holdings (other than those classes of securities designated as exempt) and securities transactions (i) by the Access Person or by such Access Person's spouse, minor children or others living in the Access Person's house and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);
- requires each Access Person to provide copies of monthly and/or quarterly account statements and trade confirmations 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 house and (ii) for which the Access Person has direct or indirect influence or control over investment decisions (including as a trustee or by providing discretionary advisory services);
- requires each Supervised Person to pre-clear any securities offered in an initial public offering or private placement (including investments in hedge funds, fund-of-funds, private equity funds, venture capital funds and other unregistered pooled investment vehicles);
- 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 XCM's Code of Ethics and conflicts of interest between XCM and XAN; 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.

A copy of XCM's Code of Ethics may be obtained by contacting Lawrence S. Block, XCM's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@resourceamerica.com.



B. SUPERVISED PERSON CONDUCT

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

- prohibiting each Supervised Person from trading on the basis of, or misappropriating, material nonpublic or proprietary information (*i.e.*, insider trading);
- prohibiting each Access Person from purchasing or selling securities of any issuer on XCM's restricted issuers list;
- prohibiting each Supervised Person from engaging in certain prohibited transactions, including market manipulation, front-running and trading on rumors;
- requiring each Supervised Person to report and obtain the prior approval of the Chief Compliance Officer before engaging in any outside business activity;
- requiring each Supervised Person to report any gift or entertainment (given or received) in excess of \$300 per recipient per year.

C. FINANCIAL INTEREST IN CLIENT SECURITIES TRANSACTIONS

XCM is required to obtain consent of a majority of the independent directors of XAN for any principal transaction involving XCM or an affiliate, and XAN, and may be required to obtain consent of XAN for any affiliate or cross transaction involving XCM or an affiliate and XAN.

D. INVESTING IN ASSETS RECOMMENDED OR HELD BY A CLIENT

XCM has a fiduciary duty to act solely for the benefit of XAN. All employees of XCM, including directors and officers, must put the interests of XAN before their own personal interests and must act honestly and fairly in all respects in dealings with XAN.

XCM may in the future recommend to XAN, and may in the future buy or sell for XAN, securities in which XAN (or an affiliate) has a material financial interest (such as securities of a CDO in which XCM or an affiliate is entitled to receive collateral management fees, collateral administration fees, special servicing fees and other fees for services provided to such CDO). To the extent XAN invests in a pooled investment vehicle that is advised by, or that has another business or other relationship with, XCM or its affiliates, XAN may bear not only its direct Management Fees and expenses, but also the expenses and fees associated with the investment in the underlying pooled investment vehicle, some of which fees and expenses may be paid to XCM or its related persons.

XCM and its affiliates may in the future engage in principal or cross transactions with or for XAN, consistent with the Advisers Act, SEC rules, the policies and procedures set forth in XCM's Compliance Manual and XAN's Agreement.

XCM and its affiliates may in the future cause XAN to purchase investments from another client, or to sell investments to an advisory client of an affiliate. Such transactions create conflicts of



interest because, by not exposing such buy and sell transactions to market forces, XAN may not receive the best price otherwise possible, or XCM and its affiliates might have an incentive to improve the performance of one client by selling underperforming assets to another in order, for example, to earn fees. Affiliates of XCM 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, XCM and its affiliates will follow any applicable investment allocation requirements set forth in the Agreement. XCM will not directly or indirectly receive any commission or other transaction-based compensation for effecting any such transaction and XCM will not effect any such transaction for XAN where XCM is deemed to own more than 25% of the participating investment vehicle, unless such transaction complies with the requirements of the XCM'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 XCM's management of XAN, XCM and its affiliates may engage in principal transactions. XCM 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 the independent directors of XAN regarding any proposed principal transactions and that any required prior consent to the transaction be received.

E. CONTEMPORANEOUS PURCHASE OR SALE OF SECURITIES

Please see the response to Item 11.C above.

ITEM 12: BROKERAGE PRACTICES

A. SELECTING OR RECOMMENDING BROKER-DEALERS FOR CLIENT TRANSACTIONS

Unless otherwise specified in the Agreement, XCM has the authority to determine for XAN, without obtaining specific consent (except as otherwise provided below), (a) the securities to be bought or sold, (b) the amount of the securities to be bought or sold, (c) the broker or dealer to be used and (d) if applicable, the commission rates paid. Limitations on XCM's authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling a XAN's account, (ii) its duty to seek to obtain "best execution," (iii) the investment strategies and objectives of XAN and (iv) the Agreement.

In determining which broker or dealer to use, XCM seeks to obtain "best execution" with respect to its securities transactions for XAN. XCM 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, XCM 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 XAN's account;
- custodial (and other) services provided by such brokers and/or dealers that may potentially enhance XCM'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.

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

In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, XCM is not required to solicit competitive bids and is not required to seek the lowest available commission cost. XCM does not negotiate "execution only" commission rates; therefore, XAN 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

XCM may, from time to time, receive unsolicited market and industry research from broker-dealers. In no instance does XCM seek to obtain research or other soft dollar benefits in exchange for directing client brokerage to the broker or bank producing such materials. All decisions related to selection of XCM's trading counterparties and broker-dealers servicing client accounts are made based on best execution.

2. BROKERAGE FOR CLIENT REFERRALS

XCM and its related persons do not receive client referrals from broker-dealers or third parties that provide order execution on behalf of client accounts.

3. DIRECTED BROKERAGE

XCM does not routinely recommend, request or require XAN to direct XCM to execute transactions through specified broker-dealers.

B. AGGREGATION OF CLIENT PURCHASES AND SALES

XCM only provides advisory services to XAN. Notwithstanding the foregoing, XAN and its affiliates may aggregate purchase and sale orders of securities and other financial instruments on behalf of XAN, if, in XCM's reasonable judgment, such aggregation would result in an overall economic benefit to all participating clients based on relatively better purchase or sale prices, lower commission expenses, beneficial timing of transactions, or a combination of these and other factors.

In the applicable instances in which securities acquired in an aggregated order are acquired at different prices or different costs (as prevailing trading activity frequently may make it possible to receive the same price or execution on the entire volume of securities purchase or sold) XCM will average the various prices and costs among participating clients. Thus, the effect of the aggregation may operate on some occasions to XAN's disadvantage.

ITEM 13: REVIEW OF ACCOUNTS

A. CLIENT ACCOUNT REVIEWS

XCM reviews the XAN portfolio consistently throughout the day, week and month. This review entails security position exposure, pricing and risk analysis. This review is conducted by various investment and accounting professionals of XCM. XAN's portfolio and investments are also reviewed by the XCM investment committee not less than annually.

B. CONTENT AND FREQUENCY OF REGULAR REPORTS

XCM provides reports to XAN as and when requested by XAN and its Board of Directors in order to assist XAN in its compliance with its governance, legal, regulatory, or other such requirements.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION.**A. COMPENSATION RECEIVED BY XCM FOR CLIENT REFERRALS**

XCM does not receive any economic benefit from any party that is not a client in connection with the provision of investment advice or other advisory services to XAN.

B. COMPENSATION PAID BY XCM OR RELATED PERSONS FOR CLIENT REFERRALS

Neither XCM nor its related persons directly or indirectly compensates any person who is not one of its supervised person for client referrals

ITEM 15: CUSTODY

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

XCM is generally deemed to have custody of XAN funds and securities where it has authority to obtain XAN funds or securities, for example because: (1) XCM and/or its affiliated entities act as (i) the general partner of an XAN formed as a limited partnership or (ii) the managing member of an XAN entity formed as a limited liability company; or (2) XCM has the authority to withdraw XAN funds from an account or withdraw XAN fees.

XAN is audited at least annually by an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board, and XAN files its audited financial statements with the SEC on an annual basis no later than 90 days after the end of its fiscal year. XAN is also subject to quarterly reviews by its auditors and files financial statements with the SEC on a quarterly basis. Accordingly, XCM is exempt from the requirements of certain aspects of Rule 206(4)-2 under the Advisers Act for XAN.

ITEM 16: INVESTMENT DISCRETION

The Agreement sets forth the general criteria for the investments to be purchased on XAN's behalf. Notwithstanding the foregoing, XCM is generally granted discretionary investment authority on behalf of XAN. XCM's discretionary investment authority on behalf of XAN is evidenced by the execution of the Agreement.

ITEM 17: VOTING CLIENT SECURITIES

XAN's investments are primarily comprised of various tranches of debt securities and loans. Generally, the holders of these investments are not entitled to vote on corporate matters. If XCM were to receive a proxy on behalf of XAN and is requested or required to vote a proxy, XCM will consider, among other things, the financial interests of XAN and the recommendation of management on the particular issue.

In reviewing the proxy statements, XCM 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, XCM 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. XCM will document its decision making process with respect to resolving material conflicts of interest.



XCM has adopted a Proxy Voting Policy whereby it exercises discretion to vote proxies for XAN securities. A copy of this policy, as well as a record of all proxy decisions and any documentation maintained with respect to proxy votes, is available to each existing and prospective client by contacting Lawrence S. Block, XCM's Chief Compliance Officer, at (212) 705-5090, or by e-mail at lblock@resourceamerica.com.

ITEM 18: FINANCIAL INFORMATION

A. PREPAYMENT

XCM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

B. FINANCIAL CONDITION DISCLOSURES

There are no financial conditions that are reasonably likely to impair XCM's ability to meet its contractual commitments to its clients.

C. BANKRUPTCY

XCM has not been the subject of a bankruptcy petition at any time during the past ten years.

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.

MISCELLANEOUS: ADDITIONAL INFORMATION

A. BUSINESS CONTINUITY PLAN

XCM is covered under C-III Parent's Joint Business Continuity Plan. C-III Parent's Joint Business Continuity Plan is drafted with the expectation that in the event of a significant business disruption, C-III Parent and/or its affiliates (including XCM) 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 Client and investor information; and assist investors to transact business.

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

B. PRIVACY POLICIES AND PROCEDURES

XCM is covered under the RAI Privacy Policy and Procedures, including RAI's Privacy Policy Notice. XCM distributed a Privacy Policy Notice to XAN and distributes a Privacy Policy Notice annually. RAI's Privacy Policy Notice explains the manner in which RAI and its affiliates, including XCM, collect, utilize and maintain non-public personal information about investors who are individuals, as required under federal and other applicable law. XCM is committed to protecting XAN'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



EXANTAS

Supervised Persons who need to know that information to provide XCM's products and services. RAI also maintains appropriate physical, electronic and procedural safeguards to guard XAN's and each investor's non-public personal information.

A copy of RAI's Privacy Policy Notice is available to XAN and each existing investor by contacting Lawrence Block, XCM's Chief Compliance Officer, at (212) 705-5090 or by e-mail at lblock@resourceamerica.com.