

Item 1: Cover Page

Rialto Capital Management, LLC

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March 31, 2021

Form ADV, Part 2A (the “Brochure”) brochure provides information about the qualifications and business practices of Rialto Capital Management, LLC (“Rialto” or “Adviser”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“CCO”) at (786) 745-3494 or email at amanda.vega@rialtocapital.com. Additional information about Rialto is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Rialto is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.



Item 2: Material Changes

This “Item 2 – Material Changes” summarizes material changes made to the Brochure since the previous annual updating amendment dated March 30, 2020. This Brochure replaces Rialto’s prior Brochure as of the effective date noted on the cover page.

Rialto Capital Management Luxembourg Sarl and Rialto Capital Management Netherlands B.V. are no longer required to be registered with the SEC and have been removed as relying advisers from the ADV investment adviser registration of Rialto Capital Management, LLC. Item 4 has been updated to reflect this change.

Rialto has updated Item 9. Disciplinary Information following the entry by Rialto into a settlement order with the SEC on August 7, 2020. This update was originally disclosed in the other than annual amendment filed on August 12, 2020.

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Item 4: Advisory Business

Rialto Capital Management, LLC (collectively with its subsidiaries as described herein, “Rialto” or the “Adviser”), a Delaware limited liability company, was formed in 2007 and operates as an integrated investment and asset management business with professionals operating from offices throughout the United States and Europe. In 2018, Rialto and its parent company were acquired by various funds managed by Stone Point Capital, LLC (the “Stone Point Group” or “Stone Point”) and certain Rialto employees. Rialto is led by Jeffrey Krasnoff, Chief Executive Officer, and Jay Mantz, President.

Rialto Capital Management, LLC registered with the SEC as an investment adviser in 2012. Together with its affiliates, Rialto Partners GP, LLC, Rialto Partners GP II, LLC, Rialto Mezz Partners GP, LLC, RPCF GP, LLC, Rialto Partners GP III - Debt, LLC, Rialto Partners GP III - Property, LLC, Rialto Partners GP IV – Debt, LLC, Rialto Partners GP IV – Property, LLC, Rialto Credit Partnership GP, LLC, Rialto Partners GP RSSF II, LLC, Rialto Partners GP RVCF, LLC and Rialto Absolute Partnership GP (“General Partner(s)”), Rialto provides investment advice to unregistered pooled investment vehicles (each a “Fund” and together the “Funds”) and separately managed accounts and also sub-advises certain pooled investment vehicles and a registered real estate investment trust (collectively with the Funds”, its “Clients”). Unless the context otherwise requires, the General Partners are included in the term “Rialto.” Any persons acting on behalf of the General Partners are subject to the supervision and control of Rialto in connection with any investment advisory activities. In accordance with SEC guidance, the General Partners are registered as investment advisers in reliance on one Form ADV filed by Rialto. While Rialto is the managing member controlling the General Partners, Lennar Corporation, Rialto’s former parent company prior to November 30, 2018, retained a material economic interest in certain General Partners.

Clients invest primarily in real estate properties, real estate loans and real estate related securities located in the U.S. and Europe. The Funds rely primarily on exemptions from registration under Section 3(c)(7) and Section 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). Interests in the Funds also are not registered under the Securities Act of 1933 (“Securities Act”) in reliance on exemptions provided by Section 4(a)(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

Rialto provides investment advice directly to the Funds and not individually to their limited partners or other investors. Rialto manages each Fund’s assets in accordance with the objectives and strategy as defined in each Fund’s private placement memorandum and/or limited partnership agreement or other operating agreement (“Governing Fund Documents”). All terms are generally established at the time of a Fund’s formation and investors may not restrict the Fund’s investments except as indicated in the Governing Fund Documents.

Additionally, Rialto provides investment advice to its other Clients in accordance with the objectives and strategy as defined in each Client’s investment management agreement or sub-advisory agreement (the “Management Agreements” and, together with the Governing Fund

Documents, the “Governing Documents”). Rialto primarily provides discretionary advice to its Clients, but it does have certain separately managed account Clients to which it provides non-discretionary advice. The Adviser tailors its advisory services to the particular needs of each Client. However, the specific needs of the individual investors in a Client organized as a pooled investment vehicle (i.e., limited partner investors) are not the basis for the recommendations by the Adviser. Investment advice is provided directly to the Client, not individually to the respective investors in the Client.

As of December 31, 2020, Rialto managed approximately \$5.572 billion on a discretionary basis and approximately \$894.5 million on a non-discretionary basis.

Item 5: Fees and Compensation

Rialto's revenue is derived from investment management fees and carried interest allocations. Rialto and its affiliates also earn additional fees for the provision of other services to the Clients as agreed to by each Client. While a general description of these fees is provided below, specific terms of these arrangements are detailed in the Governing Documents and other agreements that Rialto enters with each Client.

Investment Management Fee

Rialto's investment management fees vary by Client and are payable quarterly in advance. Fees generally range between 0.25% to 1.5% per annum based on (i) capital contributions/commitments less contributions that have been invested in investments that have been liquidated, sold, or written off, (ii) invested capital, or (iii) principal as variously defined within the applicable Governing Documents. With respect to some Funds, commitments in excess of certain thresholds or dependent on the timing of the commitment are subject to a discounted fee pursuant to negotiated side letter provisions.

Certain Clients pay investment management fees quarterly in advance and, in certain cases, as provided for in the Governing Documents agreed upon with the Clients, such fees are not refundable.

Investment management and other fees are generally withheld from the applicable Client's current income distributions. Rialto reserves the right to waive or reduce these fees for certain Client's investors, including employees, affiliates (such as employees of the parent company and its portfolio companies) and others as may be determined at Rialto's sole discretion. Investment management fees will not be paid by Rialto Associate investors in connection with their investments. Notwithstanding the foregoing, such Rialto Associate investors will generally directly pay for their pro rata share of the other expenses incurred by the applicable Client. For more information on the allocation of Client expenses, please see "Other Expenses" in Item 5 below.

The investment management fee paid to the Adviser, is generally offset by some or all of such the placement agent fees paid (if applicable) for an investor subscription. Additionally, there are generally caps on organizational expenses for Funds as specified in the relevant Governing Documents, amounts over the cap will reduce investor's investment management fees by their pro rata share over the cap.

Other Fees

Rialto and/or its affiliates receive additional fees for other services they provide to the Clients, and these include:

Investment-Level Fees

Subject to the terms of the relevant Client's Governing Documents, Rialto earns fees for performing various "Investment-Level Services" on behalf of its Clients, and such fees may include due diligence fees, asset management fees and in-house professional services fees ("Investment-Level Fees"). Investment-Level Services include asset-level field due diligence, loan file due diligence, loan and real estate owned asset management services, asset-level accounting, loan servicing and other similar services that outside professionals or outside consultants may otherwise typically perform for similar clients, sometimes referred to as "third-party tasks" in Governing Documents. Investment-Level Fees vary and are more fully described in the applicable Client's Governing Documents, which further provide that Investment-Level Fees are to be paid or reimbursed at cost, fixed or market rates as determined by Rialto in good faith and, to the extent applicable, as approved by or on behalf of the Client (which can include approval for the Funds by investors or by the relevant Fund Limited Partner Advisory Committee ("LPAC") on behalf of investors) in accordance with the Client's Governing Documents. These fees do not offset any other fees payable to Rialto or its affiliates.

Property-Level Fees

In certain instances, Rialto's affiliates may earn fees for performing property, construction, or development, management, leasing and related or similar services with respect to assets or investments held by the Clients. These fees vary by Client and are detailed in the Client's Governing Documents. In cases in which such fees are not predetermined (i.e., fixed fees) in the Governing Documents, they are required to be approved by the relevant Client or on behalf of the Client (which can include approval for the Funds by investors or by the relevant Fund LPAC on behalf of investors) in accordance with the Client's Governing Documents or to be consistent with those generally available in arm's length transactions. These fees do not offset any other fees payable to Rialto or its affiliates.

Servicing Fees

Rialto's affiliates, Rialto Capital Servicing, LLC and Quantum Servicing Corporation ("Rialto Servicing"), earn a fee for acting as a servicer with respect to loans held by certain Clients. In general, servicing fees vary and are calculated either based a cost plus methodology or on the unpaid principal balance of the loan, while liquidation fees are charged based on the amounts recovered. In cases in which such fees are not predetermined in the Governing Documents, they are required to be approved by the relevant Client or on behalf of the Client (which can include approval for the Funds by investors or by the relevant Fund LPAC on behalf of investors) in accordance with the Client's Governing Documents. These fees do not offset any other fees payable to Rialto or its affiliates.

Special Servicing Fees

Rialto's affiliate, Rialto Capital Advisors, LLC ("Rialto Advisors"), is Rialto's asset management arm for certain Clients and earns fees for acting as a special servicer with respect to certain pools of commercial mortgage-backed securities ("CMBS") held by certain Clients. These fees are deal-

specific and are detailed in the agreements that govern the servicing of CMBS pools and other pools of mortgage loans (“Pooling and Servicing Agreements”). These fees are generally paid by the applicable CMBS trust and borrowers and do not offset any other fees payable to Rialto or its affiliates.

The Adviser and its personnel and related parties will receive intangible and other benefits, discounts, and prerequisites arising or resulting from their activities on behalf of its Clients, which will not offset or reduce investment management fees or otherwise be shared with the Clients, the Funds or Fund investors. For example, airline travel or hotel stays will result in “miles” or “points” or credit in loyalty or status programs, and such benefits will, whether or not de minimis or difficult to value, inure exclusivity to the benefit of Rialto, its personnel or related parties receiving it, even though the costs of the underlying service is borne by the Client.

Other Expenses

Clients, including the Funds (and therefore, investors in the Funds) and any feeder funds, bear certain other expenses in addition to the fees noted above (directly or by reimbursing the General Partners or Rialto) which vary from Client to Client, as provided in the Governing Documents for each Client. These expenses include, but are not limited to: (i) organizational expenses; (ii) placement agent fees; (iii) reasonable costs and expenses incurred by members of a Fund’s LPAC in attending meetings of the LPAC that are not concurrent with the annual meeting of the Fund; (iv) third party out of pocket unreimbursed fees, costs and expenses incurred in connection with any transfer or proposed transfer by a Limited Partner; (v) financing, commitment, origination and similar fees, costs and expenses of financing with respect to a Client or Fund entity; (vi) fees incurred with a third party and all costs and expenses related to background checks on borrowers, guarantors and other third parties dealing with a Client or Fund entity; (vii) governmental fees, taxes and other charges levied against a Client or Fund entity and out of pocket fees, costs and expenses incurred in connection with any tax or other governmental audit, investigation, settlement or review with respect to a Client or Fund entity; (viii) custodial, accounting, audit, administrative and similar fees, costs and expenses of a Client or Fund entity incurred with a third party; (ix) fees incurred with third parties and all costs and expenses related to the preparation, printing, distribution, mailing or filing of Fund-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s and other communications with Partners; (x) fees incurred with a third party and all costs and expenses related to other governmental, administrative, compliance or regulatory filings or reports (including Form PF) and any administrative, regulatory, reporting, filing, or other compliance requirements (including registrations, filings and compliance with matters contemplated by the AIFMD), excluding costs of the Manager’s general compliance with its regulatory obligations; (xi) fees, costs and expenses related to a depository and to representative(s) and paying agent(s), and any other types of fees, costs, expenses, liabilities or obligations as required under applicable laws or regulations; (xii) fees, costs and expenses associated with information technology services and any computer software or hardware or electronic equipment (including the cost of software, applications, periodicals, databases or systems) purchased from third party vendors that is used for the purposes of the Fund; (xiii) reasonable out of pocket fees, costs and expenses incurred by managers, directors, officers, members, partners, employees or other agents of the General Partner, the Manager or their respective affiliates for travel, lodging and meals related to activities undertaken in the course of

managing the Fund or investments for the Funds or Clients; (xiv) directors and officers liability, errors and omissions liability, fidelity bond, cyber-security, crime coverage and general partnership liability premiums and other insurance, including any fees, costs and expenses related to any retention or deductibles (to the extent such costs relate in part to services unrelated to the Fund, a pro rata portion of such costs relating to the Fund); (xv) fees incurred with a third party and all costs and expenses related to the wind-up, liquidation, termination or dissolution or other similar types of events of the Fund or any Client or Fund entity; (xvi) advisory, consulting or similar expert or professional fees and out-of-pocket costs and expenses relating to such functions relating to a Client or Fund entity; (xvii) fees incurred with a third party and all costs and expenses associated with any activities with respect to protecting the confidential or non-public nature of any information or data (to the extent such costs relate in part to services unrelated to a Client, a pro rata portion of such costs relating to the Client), and (xviii) legal fees (including collection and enforcement) incurred with a third party and all disbursements relating to legal or regulatory matters or proceedings (including transactional, investigatory and litigation costs and expenses), and the amount of any judgments or settlements paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for relating to a Client or Fund entity.

Clients, including the Funds (and therefore, investors in the Funds) and any feeder funds, bear certain other investment level expenses (directly or by reimbursing the General Partners or Rialto) which vary from Client to Client, as provided in the Governing Documents for each Client. These investment level expenses include, but are not limited to: (i) advisory, consulting, extraordinary due diligence, valuation, appraisal or similar expert or professional fees incurred with a third party and out-of-pocket costs and expenses relating to such functions (whether or not performed by a third party); (ii) fees incurred with a third party for administration, advertising, structuring, organizing, negotiating, managing, valuing, holding, monitoring or bidding activity and out-of-pocket costs and expenses relating to such functions (whether or not performed by a third party); (iii) brokerage and other commissions, trading or hedging costs, investment banking fees and expenses, reverse breakup fees, termination fees and other similar fees, costs and expenses incurred with a third party; (iv) financing, commitment, origination and similar fees, costs and expenses of financing one or more specific investment(s); (v) fees incurred with a third party and costs and expenses related to background checks on borrowers, guarantors, joint venture partners and other third parties; (vi) legal fees (including collection and enforcement) incurred with a third party and all disbursements relating to legal or regulatory matters or proceedings (including transactional, licensing, investigatory and litigation costs and expenses), and the amount of any judgments or settlements paid in connection therewith, except to the extent such costs or expenses have been determined to be excluded from the indemnification provided for herein; (vii) custodial, accounting, audit, administrative, tax preparation and similar fees, costs and expenses incurred with a third party; (viii) reasonable out-of-pocket fees, costs and expenses for travel, lodging and meals that relate to one or more specific investment(s); (ix) governmental fees, taxes, and other charges and out of pocket fees, costs and expenses incurred in connection with any tax or other governmental audit, investigation, settlement or review; (x) fees, costs and expenses incurred with a third party related to the wind-up, liquidation, dissolution, termination or other similar types of events; and (xi) out-of-pocket regulatory compliance fees and other fees, costs and expenses, but excluding costs of the Rialto's general compliance with its regulatory obligations.

In addition to the above, the Clients, including the Funds (and therefore, investors in the Funds) and any feeder funds, bear certain additional costs and expenses including, but not limited to, costs and expenses incurred in connection to (i) travel and other expenses related to the Clients' organization, fundraising and investment activities (including first class and/or business class airfare (and/or private charter, where appropriate), first class lodging, ground transportation and premium meals (including, as applicable, cars and meals outside of normal business hours) and social and entertainment events with employees, investors, potential investors, brokers, borrowers, operating partners and service providers) and related costs and expenses incidental thereto); (ii) attending investment or Client related conferences (iii) due diligence on placement agents, finders, administrators and other service providers; (iv) vehicles through which the Clients or their investors directly or indirectly participate in investments; (v) organization or maintenance of any intermediary entity; (vi) research, including news and other services; (vii) broken or dead deal; and (viii) complying with provision in investor side letter agreements related to the Clients, including "Most Favored Nations" provisions.

Investors in a Fund are typically allocated (or otherwise bear) their pro rata share of such fees and expenses, which will, in certain circumstances, be calculated based on capital commitments, invested capital, available capital or other metrics as determined by the respective General Partners in their sole discretion. From time to time, the General Partners will be required to decide whether costs and expenses are to be borne by the Client, including the Funds, on the one hand or the General Partner or the Adviser, on the other, and/or whether certain costs and expenses should be allocated between or among the Clients. Certain expense may be suitable for only a particular Client and borne only by such Client, or as is more often the case, expenses may be allocated pro rata among the relevant Clients, even if the expense relates only to particular vehicles and/or investors and such allocation can be expected to be calculated based on capital commitments, invested capital, available capital or other metrics as determined by the General Partners in their sole discretion. The General Partners will make judgments on a fair and reasonable basis, and in their sole discretion, notwithstanding their interest in the outcome, and may make corrective allocations should it be determined that such corrections are necessary or advisable. There can be no assurance that a different manner of allocation would not result in a Client bearing less (or more) expenses.

Investors in the Funds should review the applicable Governing Documents to fully understand all fees and expenses borne by the relevant Fund and, indirectly, by the investors in such Fund.

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

Rialto and/or the General Partners are entitled to receive performance based fees pursuant to the Governing Documents executed with certain of its Clients.

Specifically, a portion of each Fund's net investment profit is allocated to the capital account of its General Partner as "carried interest." The manner of calculation of such carried interest is disclosed in each Fund's Governing Documents and varies by Fund. As is the case with investment management fees, Rialto and its subsidiaries reserve the right to waive or reduce carried interest for certain investors, including employees, affiliates, a limited number of strategic partners, advisers and consultants and others, as may be determined by Rialto or at the General Partners' sole discretion.

Rialto also charges certain incentive fees to its separately managed account and sub-advised Clients on a case by case basis as determined by the relevant Client's Management Agreement.

Rialto and/or the General Partners' receipt of performance fees may create an incentive for Rialto to make investments on behalf of the Funds and its Clients that are riskier or more speculative than would be the case in the absence of such compensation. However, Rialto believes that this conflict is mitigated because carried interest and incentive fees are not earned until the Client achieves stated hurdle rates. Furthermore, Rialto believes that its interests are aligned with those of the Funds because Rialto and/or the General Partners and members of Rialto's management team have committed their capital to the Funds.

Rialto may also be incentivized to allocate the most lucrative investment opportunities to Clients that are charged the highest performance fee or the highest or most attainable hurdle rates, rather than to Clients for which the opportunity may be most suitable. Rialto recognizes its fiduciary duty to each Client and will endeavor to make a good faith determination to allocate such opportunities in accordance with the Clients' Governing Documents and Rialto's investment allocation policy.

Item 7: Types of Clients

Rialto provides investment advisory services to separately managed accounts and pooled investment vehicles. With respect to the Funds and Clients organized as pooled investment vehicles, Rialto provides the advisory services to the Funds and the Clients, and not individually to the investors in the Funds or Clients. Investors in Clients include, but are not limited to, high net worth individuals, family offices, pension plans (corporate, state and foreign), sovereign wealth funds, endowments, foundations, banks, insurance companies, pooled investment vehicles (e.g., funds-of-funds), trusts, estates or charitable organizations, and corporate or business entities.

Certain Funds require minimum commitments from investors as outlined in the relevant Fund Governing Documents; however, Rialto maintains discretion to accept less than these amounts.

An investor in the Funds must meet certain suitability qualifications, such as being an “accredited investor” within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act and a “qualified purchaser” as defined in the Investment Company Act. Also, investors will be required to make certain representations that they (i) are acquiring an interest for their own account, (ii) received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment, and (iii) have the ability to bear the economic risk of an investment in the Fund. Details concerning applicable investor suitability criteria are set forth in the respective Fund’s Governing Documents and subscription materials which are furnished to each investor.

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

Methods of Analysis

Rialto has an integrated investment and operating platform, including in-house resources with the capability to underwrite and diligence complex portfolios of real estate debt and assets, workout and restructure distressed debt, manage real estate owned assets, and maximize cash recoveries and profits. Utilizing its integrated operating platform and established relationships with market parties, Rialto is able to source, close and manage debt, equity and securities investments to generate risk-adjusted returns for Clients. Rialto's dedicated team of underwriting professionals performs in-depth asset level due diligence which is complemented by market-based research to confirm underwriting assumptions. Rialto does not rely on any single real estate data provider but focuses on specialists for each local market and asset type. Rialto has access to a variety of CMBS-related data providers and receives information from a variety of industry organizations and publications.

Investment Strategies

Clients invest primarily in real estate properties, real estate loans and real estate related securities located in the U.S. and Europe.

Risks of Loss

All investing involves a risk of loss and identifying and evaluating potential investments is challenging. Many investment decisions made by the Adviser will be dependent upon the ability of its employees to obtain relevant information and reliance upon information provided by third parties. The Adviser's investment strategy entails substantial risk and could result in significant loss over short or long periods. Investment made in Client portfolios are speculative investments and are not intended as a complete investment program. The Adviser's strategy is designed for sophisticated investors who fully understand and are capable of bearing the risk of such investments. Rialto makes neither guarantee nor representation that its Clients will achieve their investment objective or that the Clients' investors will receive a return of their capital.

The success of the Clients' investment activities depends to a significant degree on Rialto's ability to identify and capitalize on inefficiencies in the markets. No assurance can be given that Rialto will be able to locate investment opportunities or effectively capitalize on inefficiencies in the markets. Additional buyers have entered and may enter the market (including additional CMBS buyers, some of which may be set up to serve as sponsors and originators and hold certificates for risk retention purposes) and compete with Clients for investment opportunities. If there are fewer investment opportunities than anticipated by Rialto (caused by a prolonged period during which sellers of real estate assets are "price-disabled" or caused by other reasons), this will reduce the scope of the Clients' potential investment strategies. If Rialto is unable to effectively identify and capitalize on inefficiencies in the markets, its Clients will be unable to achieve the Client's investment objective. Sudden and extreme changes in the markets precipitated by natural disasters, acts of terrorism, global viral pandemics or other large scale or localized market impacts can further negatively affect Rialto's ability to capitalize on inefficiencies in those markets.

Investment analysis and decisions by the Adviser may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In other cases, even where an investment is not required to be made on an expedited basis, the seller of assets may not make certain information available either because such information is subject to confidentiality restrictions or otherwise. In such cases, the information available to the Adviser at the time of making an investment decision may be limited, and these parties may not have access to detailed information regarding the investment property, such as physical characteristics, environmental matters, zoning regulations or other local conditions affecting an investment opportunity. Therefore, no assurance can be given that the Adviser will have knowledge of all relevant circumstances that may adversely affect an investment prior to the time of investment. The Adviser's due diligence efforts may not uncover all of an investment's weaknesses. Before making an investment, Rialto assesses the strength and quality of the prospective investment and other factors that it believes are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, Rialto relies on the resources available to it and, in some cases, an investigation by third parties. This process is particularly important and subjective because there may be little or no information publicly available about the investments. There can be no assurance that the due diligence processes for Rialto will uncover all relevant facts or that any investment will perform as anticipated. In addition, Rialto's information barrier and material non-public information control policies may also limit or restrict the Adviser's ability to utilize information in its investment process to make or dispose of investments from time to time which may negatively impact Client investments.

Stock markets, bond markets and real estate markets fluctuate substantially over time. Performance of any investment is not guaranteed. As a result, there is a risk of loss of the investments managed by the Adviser that are out of its control. The Adviser cannot guarantee any level of performance or that the Clients will not experience a substantial or complete loss of their investment. There is no assurance that the Clients will be able to generate returns or that the returns will be commensurate with the risks inherent in their investment strategy. The marketability and value of any investment will depend on many factors beyond the control of the Adviser. Included among the factors beyond the controls of the Adviser are natural disasters (e.g., fire, flood, earthquake, storm and hurricane) and epidemics, pandemics or other outbreaks of serious contagious diseases. The occurrence of a natural disaster or an epidemic could adversely affect and severely disrupt the business operations, economies and financial markets of many countries (even beyond the site of the natural disaster or epidemic) and could adversely affect the Adviser's ability to do business. In addition, terrorist attacks, civil unrest or the fear of or the precautions taken in anticipation of such attacks or unrest, could, directly or indirectly, materially and adversely affect specific assets and certain investments in which the Adviser has invested Client assets or could affect the countries and regions in which Client assets are invested, where the Adviser has its offices or where the Adviser or its Clients otherwise do business. Acts of war (e.g., war, invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) could also have a material adverse impact on the financial condition of businesses or investments in which the Adviser has invested Client assets. Furthermore, natural disasters, epidemics and terrorist attacks can have the effect of compounding and exaggerating the impact of any of the specific investment risks noted above on Clients' investments.

The expenses of the Clients may exceed their income, and an investor in a Fund would lose the entire amount of its contributed capital. Therefore, an investor should only invest in a Fund if the investor can withstand a total loss of its investment. The past investment performance of the Clients' portfolios cannot be taken to guarantee future results of Client portfolios or any of their investments.

In addition to the above, set forth below is a non-exhaustive list of certain market and instrument specific risks of the investments made by Rialto for Clients (some of which may not apply to a particular Client). Prospective investors in the Funds are advised to review the applicable Fund's Governing Documents for a more extensive description of the applicable investment strategies and how the risks described below may impact its investments.

Risks related to real estate investments: real estate, like many other long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the collateral underlying investments (and thereby affect the value of investments). The cash flow and value of the investments will depend on many factors beyond the control of the Adviser, including: changes in general economic or local conditions; changes in supply of or demand for competing properties in an area; changes in interest rates, which may affect, among other things, the Adviser's ability to enter into a favorable transaction or the Adviser's ability to sell all or part of an Investment; fluctuations in foreign currency in foreign currency exchange rates vis a vis the U.S. Dollar, which may affect a Client's net returns expressed in U.S. Dollars; the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and tenant safety; unavailability or cost of mortgage funds which may render the construction, leasing, sale or refinancing of a property difficult; the financial condition of borrowers and of tenants, buyers and sellers of property; changes in tax rates and other operating expenses (including the cost and availability of insurance of all types (particularly windstorm and flood insurance)); the imposition of rent controls; energy, materials and/or labor shortages or the cost thereof; various uninsured or uninsurable risks; natural disasters; environmental disasters; pandemics; government shutdowns; political instability; war; and terrorism.

Deterioration in the mortgage, real estate or financial markets or the economy in general may cause the fund to experience losses: Clients' investments will be materially affected by conditions in the mortgage market, the residential and commercial real estate markets and the financial markets and the economy generally. Delinquencies and losses with respect to residential and commercial real estate loans may increase in an economic downturn. Although investments may be acquired at favorable prices that already reflect these circumstances, a deterioration of the mortgage or real estate markets or the financial markets or the economy in general may nonetheless cause Clients to experience losses related to investments in real estate loans, CMBS investments and other real estate related assets.

Concentration of investments in real estate; lack of diversification: The concentration of the investments only in the real estate industry may increase the volatility of the Clients' returns and will increase Clients' exposure to the risk of downturns in this industry to a greater extent than if Clients' portfolios also included other sectors of the economy. As a result, distress or further

distress in the real estate industry (or the CMBS market more specifically) could adversely affect returns and may result in the loss of all or a part of Clients' and Fund Limited Partners' investments. Client portfolios may be subject to more rapid changes in value than would be the case if Client portfolios were required to maintain wide diversification among industries, areas and issuers.

Portfolio concentrations of property types subject Clients to increased risk of decline in particular industries and businesses: A concentration of real estate loans held by Clients that are secured by a concentration of property types can increase the risk that a decline in a particular industry or business would have a disproportionately large impact on the performance of the Client's portfolio as a whole.

Geographic concentrations of investments may increase risks: The concentration of investments in a specific region will make the performance of a Client's portfolio as a whole more sensitive to the following conditions or events in the region where real properties are located: economic conditions, conditions in the real estate market, changes in governmental rules and fiscal policies, natural disasters, environmental disasters or acts of terrorism (any of which may result in uninsured losses), and other factors. Any adverse condition or event in a region where a Client has a high concentration of investments may have a material adverse effect on the Client's return on its investments and could cause losses.

The lack of liquidity in investments may adversely affect the performance of investments: The Adviser plans to invest Client assets in securities (e.g., CMBS), loans or other assets for which no (or only a limited) liquid market exists or may exist in the future or that are subject to legal or other restrictions on transfer, including prohibitions on transferring, financing, pledging and hedging certificates held for risk retention purposes over extended periods, which may be in place for 5 years or for in excess of 10 years based upon the structure of the transaction. There is no active secondary market for certain types of securities or loans that the Adviser intends to make or acquire for Clients or for certain equity or debt participation rights of the kind that the Adviser might acquire for Clients and no such markets are expected to develop. The determination of whether and when a Client's investment should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, asset performance, real estate and capital market conditions, and tax consequences. However, the market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors on the Client's assets.

Valuation risk of illiquid investments: Certain of the securities or assets the Adviser will purchase for or will originate with Clients will not be actively traded. In the absence of market comparisons, the Adviser will use other pricing methodologies, including, for example, models based on assumptions regarding expected trends, historical trends following market conditions believed to be comparable to the then current market conditions and other factors believed at the time to be likely to influence the potential resale price of an Investment. Such methodologies may

not prove to be accurate and the Adviser's inability to accurately price securities or assets may misstate the Client's performance from time to time.

Leverage (including with respect to subscription credit facilities): The Funds may acquire property subject to existing financing or may obtain new financing and may incur secured or unsecured indebtedness at the asset level and/or the Fund level, if the General Partner believes it is appropriate, subject to limited restrictions set forth in the Fund's Governing Documents on entering into borrowings against net asset value at the level of the partnership or certain other entities within the Fund. In addition, the Fund, or a subsidiary of the Fund, may obtain a subscription facility to finance investments, which may be secured by a pledge of the Partners' unfunded commitments in the Fund. Should the Fund obtain substantial leverage, such leverage will increase the Fund's exposure to adverse economic factors, such as significantly rising interest rates, severe economic downturns, further real estate downturns or deteriorations in the condition of its investments or one or more geographic markets in which investments are located. In the event the investments are unable to generate sufficient cash flow to meet principal and interest payments on the Fund's indebtedness, as well as pay other operating expenses of the Fund (most of which will be fixed in nature), the Fund's return on its investments would likely be significantly reduced or even eliminated.

Competition for investments: The success of Clients' investments will depend, in part, on the ability of each Client or its affiliates to originate or acquire investments on advantageous terms. The Fund will encounter competition from numerous real estate investment partnerships and trusts, as well as from individuals, corporations, banks, insurance companies and other institutions and entities engaged in real estate investment activities. Competition for investments may have the effect of increasing costs, reducing yield or making it substantially more difficult to locate investments that meet the Client's investment objective or which the Adviser's investment committee otherwise believes are suitable for a Client, thereby reducing the diversity and/or attractiveness of Clients' investments and the returns.

Risks related to debt investment in general: The Adviser is expected to acquire performing, sub-performing and/or non-performing debt investments for Clients and may acquire debt investments that become sub-performing or non-performing in the future. There is always a risk that a borrower may default. The collateral securing a loan may be mismanaged or otherwise may decline in value, leaving the lender under-secured. Investments in debt are subject to the risk that, upon maturity, replacement "takeout" financing will not be available, leaving the borrower unable to repay the loan, in which case the lender would need to resort to any available remedies. In addition, Clients' investments in loans may involve workout negotiations, restructuring, the possibility of foreclosure and/or a discounted payoff. However, even if a restructuring were successfully accomplished, there are risks of a substantial reduction in the interest rate and/or a substantial write-down of the principal of such loans, each of which may also have adverse tax consequences. As part of its investment program, the Adviser may invest in fixed- and floating-rate loans for Clients, which investments may be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest-rate risk, liquidity risk, and the general risks related to being a lender. Purchases of participations in real estate loans raise many of the same risks as investments

in real estate loans and also carry risks of illiquidity and lack of control. Further, there may be no active secondary market for certain types of loans that the Adviser intends to make or acquire or for certain equity participation rights of the kind that the Adviser might acquire for Clients.

Commercial mortgage loans, CMBS and other pools of commercial mortgage loans: Commercial lending is generally viewed as exposing a lender to a greater risk of loss than lending which is secured by single-family residences, in part because it typically involves making larger loans to a single borrower or groups of related borrowers. In addition, unlike loans which are secured by single-family residences, repayment of loans secured by commercial properties often depends upon the ability of the related real estate project to (i) generate income sufficient to pay debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements, and (ii) in the case of commercial loans that do not fully amortize over their terms, retain sufficient value to permit the borrower to pay off the loan at maturity through a sale or refinancing of the mortgaged property. The ability of borrowers to repay commercial mortgage loans typically depends upon the successful operation and/or, if applicable, construction or rehabilitation, of the related real estate project and the availability of financing. Any factor which affects the ability of the project to generate sufficient cash flow could have a material adverse effect on the value of such loans. These factors include: (i) the uncertainty of cash flow to meet fixed obligations; (ii) adverse changes in general and local economic conditions, including interest rates and other local market conditions; (iii) tenant credit risks; (iv) the unavailability of financing, which may make the operation, sale or refinancing of a property difficult or unattractive; (v) vacancy and occupancy rates; (vi) fluctuation of construction and operating costs; (vii) regulatory requirements, including zoning and rent control; (viii) environmental concerns; (ix) project and borrower diversification; (x) vandalism (with attendant security costs); (xi) uninsured losses; (xii) restrictions and compliance costs imposed by the Americans with Disabilities Act, the Fair Housing Act, as amended, and similar laws; (xiii) general non-recourse status; and (xiv) real and personal property tax laws, rates and assessments. In addition, commercial properties often involve a single user or tenant or relatively few tenants. Commercial property specifications may be tailored to the requirements of particular users or tenants and, accordingly, it may be difficult, costly and time consuming to liquidate such properties or attract new tenants.

Residential mortgage loans, RMBS and other pools of residential mortgage loans: The Adviser may invest Client assets directly in residential mortgage loans and may purchase RMBS (residential mortgage-backed securities) and/or interests in other pools of residential mortgage loans. RMBS evidence interests in or are secured by pools of residential mortgage loans. Accordingly, the RMBS and other pools of residential mortgage loans in which the Adviser may invest Client assets are subject to all of the risks of the respective underlying mortgage loans. Residential mortgage loans are typically secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, natural disasters, environmental disasters, acts of terrorism, government shutdowns, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans.

In addition, the Adviser may invest Client assets in non-agency RMBS, which are backed by residential real property but, in contrast to agency RMBS, their principal and interest are not guaranteed by federally chartered entities such as Fannie Mae and Freddie Mac and, in the case of Ginnie Mae, the U.S. government. In the event of any default under a mortgage loan held directly by a Client, the Client will bear the risk of loss of principal to the extent of any deficiency between the value of the collateral (which, for many residential and other real estate properties, has already significantly declined and may decline further in the future) and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on the return on the Client's investments.

The Adviser may also invest Client assets in RMBS or other pools of residential mortgage loans that include or are backed by collateral consisting of subprime residential mortgage loans. "Subprime" mortgage loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have a high debt-to-income ratio, and mortgage loans made to borrowers whose income is not required to be disclosed or verified.

Subordinated securities: The Adviser expects to make significant investments for Clients in below-investment-grade (or unrated) CMBS (and may also have below-investment-grade (or unrated) investments in RMBS), which are subordinated to other more "senior" securities of the same issue or series. The default-related risks of the underlying mortgages or assets are severely magnified in subordinated securities. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. Such securities therefore possess some of the attributes typically associated with equity investments. Default risks may also be further pronounced in the case of CMBS and RMBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Accordingly, these securities may experience significant price and performance volatility with respect to a variety of market and non-market factors.

Investments in junior or subordinate loans and mezzanine debt: Certain loans may be in a junior or subordinate position to senior financing either because the loans are a second lien on the real estate or are secured by a direct or indirect lien on the equity of the owner of the underlying real estate (i.e., mezzanine debt). In certain circumstances, in order to protect its investment, the Adviser may decide to repay all or a portion of the senior indebtedness relating to the particular loan or to cure defaults with respect to such senior indebtedness. In a bankruptcy of a borrower, those loans that are not secured by a lien on the underlying real estate would have a priority no greater than other general creditors of the borrower. In addition to repayment risks, these subordinate positions may be "soft," meaning subject to restrictions on enforcement rights prior to maturity or foreclosure of the senior position. These types of investments involve a higher degree of risk than a senior mortgage loan because the investment may become unsecured as a result of

foreclosure by the senior lender and the ability of the Adviser to influence an entity's affairs on behalf of the Client, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors.

B-notes and A/B structures: The Adviser may invest in B-notes for Clients, which investments are subordinate to the A-note portion of the same loan (which the Adviser would not expect to hold for Clients). In addition to the risks described above under "Risks Related to Investments in Junior or Subordinate Loans and Mezzanine Debt," certain additional risks apply to B-note investments, including those described herein. The B-note portion of a loan is typically small relative to the overall loan and is in the first loss position. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note holders after payment to the A-Note holders. Since each transaction is privately negotiated, however, 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 also less liquid than CMBS, and, as a result, a client may be unable to dispose of performing, underperforming or non-performing B-notes. The higher risks associated with a Client's subordinate position in a B-note investment could subject such Client to increased risk of losses. As a means to protect against the holder of the A-note taking certain actions, or receiving certain benefits to the detriment of the holder of the B-note, the holder of the B-note often (but not always) has the right to purchase the A-note from its holder. If available, this right may not be meaningful to the Client. For example, the Client may not have the capital available to protect its B-note interest or purchasing the A-note may detrimentally alter the Client's overall portfolio and risk/return profile.

Risks related to reliance on relationships with repeat sellers and CMBS sponsors: In order to achieve certain Client's investment objectives, the Adviser will seek to focus on off-market opportunities by transacting through direct relationships with repeat sellers and CMBS (commercial mortgage-backed securities) sponsors, such as investment, money center, regional, community, local and foreign banks, master servicers, special servicers, government agencies, other financial institutions and loan originators. No assurance can be given that the Adviser will be able to maintain such relationships or that such relationships will provide a significant number of privately negotiated or off-market investment opportunities for its Clients. For example, a Client's opportunity to enter into off-market transactions may be negatively affected if a repeat seller or CMBS sponsor enters into a merger, acquisition, consolidation or similar transaction, and such repeat seller or CMBS sponsor is not the surviving or controlling entity. Failure to continue the Adviser's relationships with repeat sellers and CMBS sponsors may negatively impact the number of investment opportunities available to Clients, which could in turn adversely affect Clients' returns and result in losses to investors.

Risks relating to increases in prepayment rates of debt underlying CMBS and RMBS: CMBS and RMBS are indirectly subject to the risks associated with prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) on mortgage loans. In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many CMBS and RMBS will be discount

securities when interest rates are high and will be premium securities when interest rates are low, these CMBS and RMBS may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact Client investments in at least two ways. First, particular investments may experience outright losses, as in the case of interest-only securities in an environment of faster actual or anticipated prepayments. Second, particular investments may under-perform relative to hedges that the Manager may have constructed for these investments, resulting in a loss to the Client's investment. In particular, prepayments (at par) may limit the potential upside of many CMBS and RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. In addition, in the case of "premium" securities, prepayments at par may result in losses.

Risks related to loans acquired from banks and other financial institutions directly or through the FDIC or other governmental agencies: Investment in bank loans through a direct purchase or assignment of a financial institution's or governmental agency's interests with respect to a loan may involve additional risks to Clients. For example, if a loan is foreclosed, the Client could become part owner of any collateral, and would bear the costs and liabilities (including tax liabilities) associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, the Client could be held liable as a co-lender. Clients will rely on Rialto's research and due diligence in an attempt to avoid situations where fraud or misrepresentation on the part of a seller or assignor could adversely affect the Client. The Client may not be able to securitize or otherwise remove from its books loans that were the subject of fraud or misrepresentation or that are otherwise impaired.

Certain legal aspects of mortgage loans; lender liability: Loans originated or acquired by a Client will be subject to certain risks relating to the legal aspects of mortgage loans. Depending upon the applicable state, or relevant non-U.S. jurisdiction law governing mortgage loans (which laws may differ substantially), a Client may be adversely affected by the operation of state law with respect to its ability to foreclose upon mortgage loans, the borrower's right of redemption, the enforceability of assignments of rents, due-on-sale and acceleration clauses in loan instruments, as well as other creditor's rights provided in such documents and the enforceability of personal guarantees. In addition, a Client may be subject to liability as a lender with respect to its negotiation, administration, collection and/or foreclosure upon mortgages. Moreover, a Client may attempt to obtain contractual rights to participate in or substantially influence the management of properties by borrowers which may result in an increased likelihood that a borrower may claim that a Client interfered with the borrower's business, acted in bad faith in exercising its management rights or otherwise acted in a manner giving rise to a claim for lender liability. As a lender, a Client may also be subject to penalties for violation of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest. Bankruptcy laws may: (i) delay the ability of a Client to realize on its collateral for one or more loans; (ii) adversely affect the priority thereof through doctrines such as equitable subordination; and/or (iii) result in a restructure of the debt through principles such as the "cramdown" provisions of the bankruptcy laws.

Effect of changes in interest rates on investments in mortgage loans: Most mortgage loans, especially fixed rate mortgage loans, decline in value when long-term interest rates increase.

Declines in market value, if not offset by any corresponding gains on hedging instruments (if any), may ultimately reduce earnings or result in losses to the Client, which may negatively affect cash available for distribution to the Client or Fund investors.

Hedging transactions: The Adviser may from time to time purchase or sell various financial instruments designed to mitigate risk associated with certain investments, including forwards, swaps or options on currencies or interest rates, securities and indices. The success of any hedging transactions will be subject to the Adviser's ability to predict correlations between the value of the Client's assets, the value, composition and timing of income generated by the Client's assets and the direction of currency exchange rates, interest rates and securities prices and similar matters. Therefore, while the Adviser may enter into such transactions for Clients to seek to reduce actual and/or perceived risks, unanticipated changes in values, compositions and/or timing may result in a worse overall performance for the Client than if it 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 position being hedged may vary, potentially leaving the Client with exposure to all or a portion of the risks being hedged.

Lower quality collateral: There are no restrictions on the credit quality of the properties and/or other collateral securing Client's loan investments. While the Adviser may seek to over-collateralize investments in loans secured by properties that it deems to be of lesser quality, loans acquired or arranged by the Adviser for Clients may nonetheless have exposures to default in payment of interest and/or principal due to risks relating to such properties, and the market values of such properties also tend to be more sensitive to changes in economic conditions than better quality properties.

Loans of portfolio securities: The Adviser may lend Clients' portfolio securities on terms customary in the securities industry, enter into securitization transactions constituting a loan of a Client's assets, enter into reverse repurchase agreements or enter into other transactions constituting a loan of a Client's assets. By doing so, the Adviser would attempt to increase income for the Client through the receipt of interest on the loan, and/or a lending premium. In the event of the bankruptcy of the other party to a securities loan, the Client could experience delays in recovering the securities it lent, and/or executing the collateral held by the Client in relation to the securities loan concerned. To the extent that the value of the securities the Client lent has increased, the Client could experience a loss if such securities are not recovered. In addition, to the extent the Client invests collateral it receives, it may suffer losses on the investments of such collateral.

Counterparty risk: Some of the markets in which the Adviser may effectuate transactions for Clients are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where

events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single or small group of counterparties.

Risks associated with investments in REITs: The Adviser may invest Client assets in interests in (and/or may structure certain of its investments as interests in) real estate investment trusts for federal income tax purposes (“REITs”), interests in real estate investment vehicles with a preferential tax regime established in non-U.S. jurisdictions, or other similar securities. Such investments involve risks relating to the particular issuer of the securities, including the financial condition and business prospects of the issuer. REITs and similar vehicles generally are required to invest a substantial portion of their assets in operating real estate or real estate-related assets, and therefore are subject to the inherent risks associated with real estate-related investments described above. REIT and similar securities are generally unsecured and may also be subordinated to other obligations of the issuer, and the Adviser may also invest Client assets in REIT or similar securities that are rated below investment grade. The performance of a REIT or similar vehicles may be affected by its failure to qualify as a REIT, or non-U.S. real estate investment vehicle under applicable law, in which case it may become subject to additional taxation or other penalties, which may substantially reduce earnings available for distribution.

Environmental liabilities: Various environmental laws may make a current or previous owner or operator of real property liable for the costs of removal or remediation of hazardous or toxic substances on, under or adjacent to such property. Those laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. For example, certain laws impose liability for release of asbestos-containing materials into the air or require the removal or containment of asbestos-containing materials. In some states, contamination of a property may give rise to a lien on the property to assure payment of the costs of cleanup. Additionally, third parties may seek recovery from owners or operators of real properties for cleanup costs, property damage or personal injury associated with releases of, or other exposure to, hazardous substances related to the properties. The owner’s liability for any required remediation generally is not limited by law and could, accordingly, exceed the value of the property and/or the aggregate assets of the owner. The presence of hazardous or toxic substances also may adversely affect the owner’s ability to refinance the property or to sell the property to a third party. The presence of, or strong potential for contamination by, hazardous substances consequently can have a materially adverse effect on the value of investments held by a Client and may cause the Client to incur losses.

Risks associated with non-U.S. investments: Non-U.S. real estate-related investments involve certain factors not typically associated with investing in real estate-related investments in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between U.S. and non-U.S. real estate markets, including potential price volatility in and relative illiquidity of some non-U.S. markets; (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (iv) certain economic and political risks, including potential exchange-control regulations, potential restrictions on non-U.S. investment and repatriation of capital, the risks associated with political, economic or social instability, and the

possibility of expropriation or confiscatory taxation and adverse economic and political developments; (v) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such investments and a potential corresponding lack of deductions or related tax credits for any non-U.S. taxes paid on such income or gains; (vi) less developed corporate laws regarding fiduciary duties and the protection of investors; (vii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (viii) political hostility to investments by foreign or private fund investors; and (ix) less publicly available information on borrowers, property owners and others.

Co-investment with third parties: A Client may co-invest with third parties through joint ventures, including through partnerships, limited liability company or other entities, that own or invest, directly or indirectly, in real estate assets. Such relationships may involve additional risks and conflicts beyond those faced when investing individually, including, for example, the possibility that one or more of the co-investors might become bankrupt, have economic or business interests or goals which are inconsistent with those of a Client, or be in a position to take action contrary to a Client's objectives. A Client may be subject to additional liabilities if a co-venturer, due to business difficulties or other reasons, is unable to satisfy its obligations. It may also be difficult for the Client to liquidate its interest in any such joint venture or other entity. Disputes between the Client and co-venturers may result in litigation that may negatively impact or jeopardize the financial interests of the Client. If a co-venturer is the subject of unrelated litigation or negative business publicity, the co-investment may suffer.

Long-term nature of investment with no certainty of return: An investment in a Client requires a long-term commitment with no certainty of return. Although investments by a Client may generate some current income, the return of capital to investors and the realization of gains, if any, from the investments will generally occur only upon the partial or complete disposition or refinancing of such Investments. While an investment may be sold at any time, it generally is not expected that this will occur for a number of years after the investment is made or acquired by a Client (and disposition of CMBS certificates may be restricted for extended periods of time under the Risk Retention Rules). In addition, a Client may leverage its acquisition of certain investments by obtaining loans from third parties (which may include seller financing), which loans may be required to be repaid in full before a Client may receive distributions of cash flow from such investments. As a result, there may be little or no near-term cash flow available to investors. In addition, certain investments may experience financial difficulties, some of which may never be overcome. Since Clients may only make a limited number of investments and since many of the investments will involve a high degree of risk, poor performance by a few of the investments could materially adversely affect the total returns to investors in a particular Client. In addition, if Clients make an investment with the intent of refinancing a portion of such investment, there is a risk that the Client will be unable to complete successfully such a refinancing. This could lead to increased risk as a result of the Client having a larger and longer-term investment than expected and reduced diversification.

Investments longer than term: A Client may make or acquire investments that may not be advantageously disposed of prior to the date that the Client will be dissolved, either by expiration

of the term of the Client or otherwise. As a result, a Client may have to sell, distribute or otherwise dispose of Investments at a disadvantageous time.

Risks related to development, redevelopment, renovation and construction: The existence of construction or renovation at properties underlying the Clients investments may make space unavailable to rent or may make the properties less attractive to tenants or their customers, and accordingly could have a negative effect on net operating income. Failure to complete planned improvements may have a material adverse effect on the cash flow at the property and the related borrower's ability to meet its payment obligations under its loan documents. In addition, in the event the related borrower fails to pay the costs for work completed or material delivered in connection with such ongoing redevelopment or renovation, the portion of the property on which there are renovations may be subject to mechanic's or materialmen's liens that may be senior to a Client's lien. Additionally, failure of any planned redevelopment, renovation or expansion to be completed, to be completed in the time frame contemplated, or to improve the operations at, or increase the value of, the subject property could affect the ability of the related borrower to repay amounts due under its loan.

Risks related to distressed investments: As part of its lending activities, Clients may originate loans to entities that are experiencing significant financial or business difficulties, including entities involved in bankruptcy or other reorganization and liquidation proceedings. Such financing involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to entities experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the value of the assets collateralizing the Clients' loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to an entity that a Client funds, the Client may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the loan advanced by the Client to the borrower.

Risks related to certain types of commercial properties: Particular types of commercial properties are exposed to special risks. Commercial properties may be collateral for mortgage loans or CMBS in which the Adviser invests Client assets or may be owned by entities pledged as collateral for mezzanine loans held by Clients, or such properties may be acquired by Clients upon foreclosure of its loans or otherwise. Property types that have special risks associated with them include, among others, office properties multifamily projects, manufactured housing community properties, condominium properties, shopping centers and other retail properties, hospitality properties, self-storage facilities, and industrial and mixed-use facilities.

Risks related to investments in restructurings: The Adviser may investment Client assets in restructurings that involve companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such company to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject the Client to certain additional potential liabilities which may exceed the value of the Client's original investment. In addition, investments in restructurings may be adversely affected by laws relating to, among other things, fraudulent conveyances, voidable preferences, lender

liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or characterize investments made in the form of debt as equity contributions.

Risks related to balloon loans: The Adviser may acquire mortgage loans for Clients that provide for scheduled payments of principal and/or interest based on amortization schedules significantly longer than their respective remaining terms to maturity or provide for payments of interest only until their respective maturity date and, in each case, a balloon payment on their respective maturity date. A borrower's ability to make a balloon payment typically will depend upon its ability either to refinance the loan in full or to sell the related mortgaged property at a price sufficient to permit the borrower to make such payment. The ability of a borrower to effect a refinancing or sale will be affected by a number of factors, including (but not limited to) the value of the related mortgaged property (which, due to then-prevailing market conditions, could be materially impaired), the level of available mortgage rates at the time of sale or refinancing, the borrower's equity in the mortgaged property, the financial condition and operating history of the borrower and the mortgaged property, rent roll status, rent control laws with respect to certain residential properties, tax laws, prevailing general and regional economic conditions and the availability of credit for mortgage loans. Any delay or failure to collect a balloon payment could materially adversely affect the Client's returns on its investments.

Investments in private companies: The Adviser may from time to time invest Client assets in private real estate companies (i.e., companies without any publicly traded securities). When investing in a private company, there is no market efficiency or testing in order to determine the correct price for interests in the company. Therefore, a Client could pay more for interests in a private company than their intrinsic value. Typically, private companies will have very limited reporting obligations, so there may be limited or no information available to investors regarding, among other things, a private company's business prospects and results of operations. Private companies frequently have less oversight from independent directors, regulatory agencies and others and less seasoned management teams.

Pandemic risks (including COVID-19) and adverse effects: The COVID-19 outbreak has led to severe disruptions in the global supply chain, financial and other markets, significant increases in unemployment, significant reductions in consumer demand and impacted the economies of many nations, including the United States, and those disruptions could continue for some time. As a result, borrowers may not and/or may be unable to meet their payment obligations under mortgage or mezzanine loans, which may result in significant losses, including shortfalls in distributions of interest and/or principal to the holders of CMBS and RMBS certificates and similar type securities. In addition, the Adviser may be constrained in its ability to collect from borrowers, which could materially adversely affect the Client's returns on its investments.

Limited rights of the limited partners and investors: Prospective investors in discretionary Clients will not be able to evaluate for themselves the merits of particular investments prior to their subscription for interests in the Client or prior to the making of an investment by the Client, nor will limited partners or other investors be entitled to participate in any manner in decisions regarding refinancing or divestiture of investments unless such transaction constitutes a decision subject to LPAC or investor consent, which generally will not be the case. As a result, investors in the discretionary Clients must rely upon the Adviser to select suitable investments for the Client

and to make all decisions with respect to those investments once made or obtained, including when and if to divest of an investment or foreclose on a loan held in an investment.

Sovereign immunity: Certain investors in Clients may be governments, government agencies, international treaty organizations or other sovereign persons or bodies. The ability of the Client, a general partner, the Adviser and any investor to enforce the obligations of such investors or to bring an action against such investors may be limited if such investors assert sovereign immunity or some other similar privilege or immunity. A successful assertion of immunity by an investor may prejudice the interests of other investors. Some sovereign investors also require that only their laws apply in disputes in which they are involved or only their own forum can decide such disputes; in those instances, the choice of law and forum provisions applicable to the various Partners may be less certain or favorable than would otherwise be the case.

Lack of management control by limited partners; reliance on the General Partners' and the Adviser's management: The limited partners will have no control over, or influence in the management of, certain Clients or the named general partner of Clients or the Adviser. Subject to the provisions of the relevant offering documents of Clients, the general partner, the Adviser and their respective affiliates have the full, exclusive and complete power and authority to make all decisions affecting the business of a Client. In general, the Adviser's executive management team will have the right to exercise all of such powers and authority with respect to the general partners of the Clients and the Adviser. In light of the foregoing, the successful operation of the Client's business will be dependent almost entirely upon the management and operational skills of the Adviser's executive management. No assurance can be given that Adviser's executive management team will be able to successfully acquire investments that will be profitable for the Clients. The loss of the service of one or more members of Rialto's executive management as a result of death, incapacity, retirement or other reason could have a material adverse impact on the Clients' ability to achieve its investment objective and/or strategies.

Distribution of illiquid securities and/or other illiquid assets: Because the term of each Client is limited certain investments (which may include CMBS certificates subject to the Risk Retention Rules) may not be ready to be sold or otherwise disposed of at the end of that period. Accordingly, there may be in-kind distributions by a Client of interests in these investments, which may be illiquid securities and/or other illiquid assets. There can be no assurance that any limited partner or investor would be able to dispose of such investments or that the value of such investments determined for purposes of the calculation of the amount of distributions will ultimately be realized.

Client/Fund-level indebtedness: The Adviser may cause a Client to incur secured or unsecured indebtedness at the Client level, if the Adviser believes it is appropriate, subject to limited restrictions set forth in the relevant Governing Documents of the Client which may allow for use of all of the Client's assets to be available to meet such liabilities.

No redemption for certain Clients: Limited partners have no right to withdraw any amount from a Fund or to be released from their commitments to a Fund except in limited situations for certain Clients as set forth in the applicable Governing Documents. Limited partners will not have the right to require a Fund to redeem all or any portion of their interests in a Fund.

No market for interests; restrictions on transfer of interests: There is no public market for interests in a Fund and one is not expected to develop. Each potential investor will be required to represent that it is a qualified investor under applicable securities laws and that it is acquiring its interest in a Fund for investment purposes only and not with a view to resale or distribution. A limited partner will not be permitted to transfer (which includes any sale, assignment, transfer or other disposition (including a synthetic transfer), or pledge, hypothecation or other encumbrance, of an interest or direct or indirect beneficial ownership thereof) its interest in a Fund or any part thereof (including, without limitation, to an affiliate or by operation of law) except in accordance with the terms of the Governing Documents of the Fund. Limited partners must be prepared to bear the risks of owning their Interests for the full term of the Fund.

Reinvestment risk: A Client may be permitted, in the reasonable discretion of its general partner, to retain and not distribute, or distribute and subsequently recall, some or all of the investment revenues (typically up to an amount not to exceed the cost of each investment) for certain uses, including during the commitment period for the funding of additional Investments. If such proceeds are reinvested, the capital (including capital that may have already yielded potentially significant gains) will continue to be subject to the risk of loss for a longer period of time. If reinvested proceeds are lost, such loss would offset in whole or in part any gains that may have been realized from prior investments of the Client and the extent of such loss could exceed any such prior gains thereby resulting in a possible loss of all or part of the investors' investments in a Client.

Limited obligation of the general partner and its affiliates to provide funds for Clients: Neither the Adviser nor any of its affiliates generally has any obligation to guarantee any party's obligations or, to provide the capital, loans or other funding to a Client which may be necessary to pay any operating deficits, to meet cash requirements or for any other Client purpose. The cash available to a Client may be inadequate to meet its future cash requirements. In such event, the investors could suffer material adverse consequences, including the possible loss of all or a part of their investments in the Client, as well as – by extension – a possible loss of all or part of the investments made by those investors who have economic exposure to (the assets, liabilities, income and performance of) the Client as a result of their being investors in a feeder vehicle of the Client.

Assumptions used to calculate the target returns and performance may be inaccurate; target returns may not be achieved: The assumptions used to derive target returns for a Client and its investments involve a significant element of subjective judgment and may be adversely affected by post-investment changes in market conditions. The Client's ability to achieve investment results consistent with its targeted return depends significantly on the accuracy of these assumptions as well as a number of other factors, including the Client's ability to execute each strategy successfully. Investors should also be aware that a high targeted return entails concomitantly greater risk of adverse investment results than a lower targeted return, which may be associated with more traditional investment products. Because of the changing nature of real estate markets, there can be no assurance that the target returns will not change, that the target returns will be achieved or that there will not be loss of principal.

Failure to make capital contributions: If some investors fail to fund their commitments to a Client, it may be difficult for the Client to make up the shortfall from other sources in a timely manner. In addition, if contributions made by non-defaulting investors and borrowings by the Client are inadequate to cover the defaulted capital contribution, the Client may be unable to pay its obligations when due. A default by a substantial number of investors or by one or more investors who have made significant Commitments could substantially impair the Fund's ability to make or acquire investments or otherwise continue operations, limit opportunities for investment diversification and/or materially reduce returns to the Client and, consequently, to investors.

Recourse to the Clients' assets: A Client's assets, including any investments made or acquired by the Client and any monies held by the Client, may be required to be available to satisfy all liabilities and other obligations of the Client in certain circumstances. Although a Client may seek to structure investments through investment entities having limited liability, there can be no assurance that such efforts will always be successful or respected. If a Client or one or more of its investments becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Client's assets generally and not be limited to any particular asset of the Client, such as the asset representing the investment giving rise to the liability.

Limitation of liability of the General Partners and Adviser: Certain Clients indemnify the general partners, the Adviser, members of the Investment Committee, members of the Allocation Committee and their respective affiliates, members, managers, agents, and personnel and certain other persons (collectively, the "Indemnified Parties") from and against claims, liabilities, damages, losses, fees, costs and expenses incurred by reason of their position, except in certain cases.

As a result, the Fund and the Limited Partners may have a more limited right of action in certain cases than they would in the absence of this indemnification. Even to the extent that the Indemnified Parties could be held liable for any activities that cause losses to investors, there is no assurance that they would have a sufficient net worth to satisfy such liability. The indemnification obligation of the Client would be payable from the assets of the Client, including the unfunded commitments of the investors, if applicable. If the assets of the Client are insufficient, the relevant general partner or the Adviser may recall distributions previously made to the investors so as to enable the Client to satisfy its indemnification obligations. Notwithstanding the foregoing, the Fund does not waive any legal rights under applicable U.S. federal securities laws or any other laws whose applicability is not permitted to be contractually waived.

Liability for return of distributions: The capital contributed by an investor is susceptible to risk of loss as a result of any liability of a Client irrespective of whether such liability is attributable to an investment in which such investor participates. In addition, an investor may be required to return distributions previously received under certain circumstances and may be liable under applicable fraudulent conveyance, bankruptcy or other insolvency laws to return a distribution.

Regulatory risks of private investment funds: Legal, tax and regulatory changes could occur during the term of a Client that may adversely affect the Client, its investment results and/or some

or all of the investors. The regulatory environment for private investment funds is evolving, and changes in regulation may adversely affect the value of investments held by the Funds, the ability of the Funds to obtain the leverage it might otherwise obtain or to pursue its business or investment strategies, or otherwise affect returns to investors. In that regard, Clients may be adversely affected as a result of new or revised legislation, or regulations imposed by the SEC, the IRS, the CFTC and/or other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Clients or some or all investors also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed or enacted, or whether any proposals will become law. Compliance with any new laws, rules or regulations could be more difficult and expensive, and may affect the manner in which Clients conduct business. New laws, rules or regulations may also subject the Clients or some or all investors to increased taxes or other costs. The effect of any future regulatory change on Clients could be substantial and adverse.

Regulatory Oversight: The Funds of the Adviser are not registered investment companies under the Investment Company Act of 1940 (the “Investment Company Act”), or otherwise registered under the securities laws, or with the securities regulatory authority or commission, of any other jurisdiction, and the Funds have no current intention of being so registered. Accordingly, the provisions of the Investment Company Act and of similar legislation in other jurisdictions regulating the relationship between an investment fund and its asset manager and otherwise protecting the interests of investors in an investment fund are generally not expected to be applicable to an investment in the Fund. Furthermore, the Funds are not subject to comparable regulation in any non-U.S. jurisdiction and neither the general partners nor the Adviser are registered as a commodity pool operator and the Adviser is not registered as a commodity trading advisor with the CFTC. Therefore, investors do not have the benefit of the protections afforded by, nor are the Clients subject to the restrictions contained in, such registration and regulation. In addition, Client investments are generally not traded on exchanges, nor is such trading regulated by any government agency. Accordingly, the protections accorded by such regulation will not be applicable to an investment in the fund.

The financial services industry generally, and the activities of alternative investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Clients’ and/or the Adviser’s exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight can also impose administrative burdens on the Adviser, including, without limitation, responding to investigations and inquiries from governmental authorities and implementing new policies and procedures. Such burdens may divert the Adviser’s time, attention and resources from portfolio management activities.

In addition, it is anticipated that, in the normal course of business, the Adviser’s officers will have contact with governmental authorities, and/or be subjected to responding to information requests from or examinations by governmental authorities. Many of these regulators, including U.S. and foreign government agencies, as well as state securities commissions, are also empowered to

conduct investigations and administrative proceedings that can result in fines, compensatory payments, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of an investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against an investment adviser and its personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the U.S. Securities and Exchange Commission (the “SEC”) has specifically focused on private equity fund managers. In that regard, the SEC’s list of examination priorities in each of the last few years has included, among other things, collection of fees and allocation of expenses, use of affiliated service providers, marketing and valuation practices, allocation of investment opportunities, and appropriate management of other conflicts of interest such as related party sales, loans or co-investments. Any registered investment adviser may, from time to time, be subject to requests for information or informal or formal investigations by the SEC and other regulatory authorities, and, in the current environment, even historical practices that have been previously examined are being revisited.

Entities subject to particular restrictions: Certain prospective investors that are entities may be subject to laws, rules and regulations limiting their participation in a Client or their engaging directly or indirectly through an investment in a Client, in investment strategies of the types which the Client may utilize from time to time. Such entities may be subject to different laws, rules and regulations, and prospective investors should consult with their own advisors as to the advisability, and tax consequences, of an investment in the Fund. The investor’s investment in a Client and the Client’s underlying assets may be adversely affected by legal and regulatory changes during the term of the Client.

Certain tax risks and compliance with tax law (including FATCA and partnership audit rules): An investment in a Client involves numerous tax risks, including, among others, the risks that (i) in any given year, an investor will be subject to tax without a corresponding receipt of cash, (ii) a substantial portion of the Client’s investments will be taxed at the rates applicable to ordinary income, either because the income constitutes interest income, or because gains are short term or are recharacterized as dealer income, (iii) the Client’s investments will give rise to U.S. state and local taxes in state and local jurisdictions in which the Client directly or indirectly invests, or is determined to be doing business, and that an investor – absent further structuring – will be directly subject to a resulting tax return filing obligation, (iv) the Client’s investments will give rise to taxation in non-U.S. jurisdictions in which the Client directly or indirectly invests, or is determined to be doing business, and that an investor – absent further structuring – will be directly subject to a resulting tax filing obligation, (v) an investor will be subject to complex rules with respect to the deductibility of certain expenses and/or losses and/or the use of other tax attributes arising from certain of the Client’s investments, and such investor’s ability to use such expenses, losses and/or other tax attributes may be subject to special limitations and other complex rules, (vi) tax positions taken by the Client will be successfully challenged on audit, including positions related to distressed investing and dealer type activities, and (vii) an investor will be required to file for extensions for the completion of such investor’s tax returns. A U.S. Tax-Exempt investor should consider the risk that an investment in a Client may give rise to UBTI. A Non-U.S. investor should consider the risk that an investment in a Client may give rise to ECI, and a

sovereign investor should consider the risk that an investment in the Client may give rise to CAI. Recently enacted U.S. tax reform legislation made significant changes to the rules potentially applicable to the Clients and/or investors, including with respect to the rules controlling the deductibility of interest for U.S. federal income tax purposes under Section 163(j), and the rules under Section 267A dealing with deductible amounts made to certain hybrid entities or with respect to certain hybrid instruments. Certain of these new rules are complex and, pending guidance that may be forthcoming, the impact on the Clients and the investors may be unclear. Prospective investors should consult their own tax advisors regarding potential changes in any tax laws, potentially with retroactive effect.

Cybersecurity and risks related to electronic communications: The Adviser, the Clients and/or their designees will provide to investors statements, reports and other communications relating to the Clients and/or the interests in electronic form, such as e-mail or through the use of an electronic investor portal (“Electronic Communications”). The foregoing use of an electronic investor portal (despite being password protected) involves the risk that statements, reports and other communications relating to the Clients and/or the interests may be stolen or otherwise obtained by unauthorized parties. In addition, Electronic Communications may be modified, corrupted, or contain viruses or malicious code, and may not be compatible with a investor’s electronic system. Furthermore, Electronic Communications may be intercepted, deleted or interfered with without the knowledge of the sender or the intended recipient. In addition, reliance on Electronic Communications involves the risk of inaccessibility, power outages or slowdowns for a variety of reasons. These periods of inaccessibility may delay or prevent receipt of reports or other information by the investors.

Item 9: Disciplinary Information

On August 7, 2020, Rialto entered into a settlement with the SEC (the “Order”) without admitting or denying any wrongdoing with respect to certain of Rialto’s earliest funds, specifically Rialto Real Estate Fund, LP (“Fund I”) and Rialto Real Estate Fund II, LP (“Fund II”). The Order states that Rialto did not provide sufficient disclosure as part of its annual Advisory Committee approval process for certain reimbursable costs regarding (i) the calculation for certain reimbursable non-personnel costs and (ii) statements about market rates for third party tasks Rialto performed in-house for Fund I. The Order also found that Rialto misallocated to Funds I and II costs and expenses related to its performance of third party tasks that should have been allocated to related co-investment vehicles Rialto also managed. In addition, the Order stated that Rialto did not adopt and implement adequate written compliance policies or procedures regarding the foregoing. The SEC credited remedial acts promptly undertaken by Rialto, and Rialto agreed as part of the settlement to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 206(4) of the Advisers Act (as defined herein) and Rules 206(4)-7 and 206(4)-8 thereunder and to pay a civil monetary penalty of \$350,000 to the SEC.

Item 10: Other Financial Industry Activities and Affiliations

In the ordinary course of their business, Rialto and its subsidiaries together with the General Partners, engage in activities that could be in conflict with the interests of Clients. The discussion below identifies certain types of conflicts that may arise from time to time but does not purport to be a comprehensive discussion. Dealing with conflicts of interest is complex and it is not possible to predict every conceivable conflict. New and different types of conflicts may subsequently arise as a result of changes in operations or practices, the development of new relationships, etc. Not all potential, apparent and actual conflicts of interest are included herein and additional conflicts could arise as a result of new activities, transactions or relationships commenced in the future. Nonetheless, Rialto seeks to address conflicts of interest that may arise in favor of its Clients and in accordance with its fiduciary obligations under the Advisers Act. Rialto will take such actions as required by the Governing Documents of the applicable Client to handle conflicts.

Rialto, together with certain affiliates, operates as an integrated investment and asset management business. Jeffrey Krasnoff is the global chief executive officer and Jay Mantz the global president of the Rialto platform. The platform's two primary components are Rialto Capital Management and its affiliate Rialto Capital Advisors, LLC (referred to as "Rialto Advisors").

Rialto Advisors provides due diligence, asset management, special servicing and loan servicing services to Clients. As a rated special servicer, Rialto Advisor's primary function is to manage loans that go into default or become delinquent during their term or at maturity, as well as perform surveillance services. In January 2014, Rialto Advisors, through its subsidiary Rialto Servicing, acquired Quantum Servicing Corporation, a wholly owned loan servicing business that specializes in servicing performing and non-performing whole loans, mezzanine loans, and B-notes.

Stone Point, an SEC registered investment adviser, is the investment manager of certain private investment funds that are indirect owners of Rialto.

Performance-Based Compensation

Rialto's performance-based compensation creates a greater incentive for Rialto to make more speculative investments on behalf of a Client or time the purchase or sale of investments in a manner motivated by the personal interest of Rialto personnel than if such performance-based compensation did not exist, as Rialto receives a disproportionate share of profits above the preferred return hurdle. The Adviser may be incentivized to allocate the most lucrative investment opportunities to Clients who are charged the highest performance-based fees, rather than to Clients for whom the opportunity may be most suitable.

Allocation of Investment Opportunities

In general, Rialto's investment offerings endeavor to identify investments with distinct characteristic and return profiles. Rialto seeks to allocate investment opportunities fairly among the Clients, taking into consideration, among other things, any applicable exclusivity clause contained in the relevant Governing Documents, the expected time commitment for an investment, projected return profile and other factors identified in more detail below. Each Client

is subject to the investment and co-investment allocation requirements set forth in the applicable Governing Documents.

From time to time, Rialto may identify an investment opportunity that is appropriate for more than one Client. In such a case, Rialto shall allocate the investment opportunity between or among such Clients in accordance with the investment allocation provisions of the applicable Client Governing Documents. If a Client has exclusivity with respect to a certain category of investments and rejects an investment presented by Rialto in that specific category, Rialto may present such investment to other Clients. To the extent discretion is permitted under the applicable investment allocation provisions of such Governing Documents, Rialto, and in some cases, Rialto's allocation committee, will allocate the opportunity on a basis that it determines in good faith to be fair and equitable taking into account any factors enumerated in such allocation provisions, as well as other considerations deemed relevant by Rialto. Among other things, the factors taken into consideration with respect to the allocation of investments may include the approximate size of the investment opportunity, the asset class or type of the investment opportunity, the nature of the investment in relation to the activities and focus of the relevant parties, the geographic location of the investment opportunity, the available capital and projected future capacity for investment of the relevant parties, the availability of other suitable investment opportunities for the relevant entities, the timing of the transaction and other factors that may be deemed relevant by Rialto in good faith. Rialto may determine that an investment opportunity that would be suitable for a Client may be allocated in whole or in part to other Clients; provided that Rialto will seek to allocate investment opportunities on a fair and equitable basis over time. The Manager does not expect to have an allocation process for investments proposed to be made by clients of the Stone Point Group and may in any event be unaware of such proposed investments. The Adviser may be incentivized to allocate the most lucrative investment opportunities to Clients who are charged the highest performance-based fees, rather than to Clients for whom the opportunity may be most suitable.

In addition, subject to the terms of the Governing Documents, Rialto and its affiliates and the Stone Point Group and its affiliates may invest in certain investments alongside the Clients or may otherwise invest in opportunities that might be suitable for a Client. However, under the Governing Documents of certain Clients, Rialto may not invest in any investment alongside the Fund other than: (i) through a co-investment vehicle, (ii) through an alternative investment vehicle, (iii) through another Fund entity, (iv) as permitted by or in accordance with certain procedures set out in the Governing Documents, or (v) through another Client. In addition, Rialto may invest, or permit any limited partner that is an affiliate of the General Partners to invest, the amount of capital that would otherwise be required from such limited partner (A) directly into any investment, or (B) through a separate vehicle on substantially the same terms and conditions as the relevant Client, including the sharing of applicable fees, costs and expenses.

An investment opportunity that is suitable for multiple Clients may not be capable of being shared among some or all of such Clients due to the limited scale of the opportunity or other factors. There can be no assurance that the Adviser's efforts to allocate any particular investment opportunity fairly among all Clients for whom such opportunity is appropriate will result in an allocation of all or part of such opportunity to the Clients. Not all conflicts of interest can be expected to be resolved in favor of the Clients.

From time to time, certain affiliates and personnel of the Adviser and the Stone Point Group and their affiliates may be presented with the opportunity to invest in transactions or entities, whether in their individual capacities or on behalf of certain “family offices” or other estate planning vehicles or entities, generally in areas that are outside of a Client’s investment focus and/or target investment size. The Adviser and its affiliates have adopted procedures to address potential conflicts of interest with respect to the pursuit of investment opportunities by such affiliates and personnel, including the adoption of a code of ethics.

If a perceived or actual conflict of interest occurs as a result of Rialto’s advisory discretion, Rialto will consult with the Client, if applicable, the Clients’ Advisory Committee, Rialto’s General Counsel, and the compliance department as necessary. Furthermore, the Clients’ Governing Documents generally provide for the disclosure of potential conflicts for the waiver, approval or disapproval of actions taken with respect to an investment.

Alignment of Interests

Rialto and its affiliates engage in a broad spectrum of real estate related activities. They may have direct or indirect interests in real properties that are in the same markets as, and compete with, certain of the real properties underlying the investments of Clients. Consequently, personnel of Rialto and its affiliates who perform services on behalf of Clients could also perform services related to real properties that compete with real properties that underlie investments made by Clients. In performing investment or other services for Client investments, Rialto personnel may become aware of information that Rialto’s information barrier and material non-public information control policies may limit or restrict, which could impact the Adviser’s ability to make or dispose of investments.

Clients, principals or subsidiaries may make an investment in an entity, asset or property in which another Client holds an investment in a different class of debt or equity securities or obligations. For example, a Fund may acquire an interest in a senior mortgage loan on a particular property with respect to which another Client holds or acquires mezzanine debt, a companion loan or other additional debt or an equity interest or other type of interest. As a result, the economic interests and incentives of such Clients will not be aligned and could pose potential conflicts should an event arise that requires Rialto to take an action that will impact the Clients in different ways.

Additionally, a Client may acquire mezzanine debt, a companion loan or other debt, or an equity interest or other interest in a particular property on which another Client or another affiliate of the General Partner or Rialto has acquired an interest in a senior mortgage loan on that same property and with respect to which an affiliate of the General Partner or Rialto has been appointed special servicer. For example, it is possible that a Client may acquire mezzanine debt, a companion loan or other debt, or an equity interest or other interest in a particular property on which the related senior mortgage loan has been included in a CMBS pool and another Client or Rialto affiliate may hold an investment in the same CMBS pool and, in connection with such investment, an affiliate of the General Partner or the Adviser is appointed as the special servicer for such pool.

Pooling and Servicing Agreements typically require the special servicer to service and administer loans in such pools in the best interest of all classes of certificate holders and without regard to

any other relationship or interest that the special servicer or any of its affiliates may have with respect to the related properties or borrowers (such as an interest of a Client as a lender on other debt). In these or similar circumstances, the affiliate of the General Partner or Rialto that is acting as special servicer would be required to put the interests of investors in the pool of mortgage loans ahead of the interests of the Fund and its limited partners or other Clients and investors, and the special servicer may be required to take certain actions that would be adverse to the interests of the Fund and its limited partners or Clients and investors. Any such conflicts of interest would need to be resolved in accordance with the applicable mechanisms in the relevant Pooling and Servicing Agreement, such as those pertaining to the resignation of the special servicer. Pooling and Servicing Agreements entered into starting with the third quarter of 2015 generally require the special servicer to recuse itself by resigning as special servicer with respect to the loan in connection with which the conflict arose.

Subject to the provisions set forth in the Governing Documents, Rialto and the General Partners will endeavor to manage any conflict of interest between or among Clients in their discretion, consistent with Rialto's fiduciary obligations. Certain additional matters involving possible conflicts of interest will also be raised with the relevant Client.

Fees Payable and Expense Reimbursements to Rialto by the Fund or Investments

The Clients will directly or indirectly through investments bear certain fees and expenses in addition to the investment management fee payable to Rialto. These fees and other expenses include the include those listed above in Item 5. The Adviser or affiliates of the Adviser are expected to provide services and Rialto will receive fees for such services that are borne by the Clients and do not offset the investment management fee. In the event that any fees, costs or expenses are to be paid to a "third party" or "third parties," the affiliates of the General Partner are included as part of the definition of such terms to the extent such fees, costs and/or expenses are otherwise permitted pursuant to the Clients' Governing Documents to be paid to such affiliates.

Ancillary Benefits – CMBS Transactions

Rialto's affiliates perform other services and/or serve in other roles with respect to CMBS and receive ancillary benefits thereto. For example, investors in the B-piece of a CMBS typically maintain the right to appoint and remove the special servicer for relevant loan pools within the CMBS. Certain Clients are investors in B-pieces related to CMBS, and as such, have appointed Rialto Advisors as the special servicer of the relevant CMBS pools so acquired. Rialto Advisors is remunerated for these services by the CMBS trust. The investors in the Funds have the right to require the Funds to terminate the special servicer if such special servicer is the General Partner or one of its affiliates and to designate a different special servicer who is not affiliated with the General Partner.

Having acquired multiple deals from loan contributors and issuing banks, Rialto has developed extensive relationships that provide potential investment opportunities for Clients as well as for Rialto and its affiliates. However, it is possible that such business opportunities could present further conflicts between the interests of the Clients and those of Rialto and its affiliates.

The pooling and servicing agreements of CMBS pools and other pools of mortgage loans (“Pooling and Servicing Agreement”) typically require the special servicer to service and administer loans in such pools in the best interest of all classes of certificate holders and without regard to any other relationship or interest that the special servicer or any of its affiliates may have with respect to the related properties or borrowers (such as an interest of a Rialto client as a lender on other debt). In these or similar circumstances, Rialto Advisors or the other party that is acting as special servicer would be required to put the interests of investors in the pool of mortgage loans ahead of the interests of the Clients, and the special servicer may be required to take certain actions that would be adverse to the interests of the Clients. Any such conflicts of interest would need to be resolved in accordance with the applicable mechanisms in the relevant Pooling and Servicing Agreement, such as those pertaining to the resignation of the special servicer. Pooling and Servicing Agreements entered into starting with the third quarter of 2015 require the special servicer to recuse itself by resigning as special servicer with respect to the loan in connection with which the conflict arose.

Other Services Provided by Affiliates

Rialto may retain one or more of its affiliates (including but not limited to, RCA, Kensington Vanguard, ARC Group LLC, Alliant Insurance Services, Inc., Situs Group LLC, Sabal Capital Partners, LLC and Quantum Servicing Corporation to perform extraordinary due diligence, servicing, special servicing, property management, maintenance, construction and/or development, leasing, escrow, title or similar types of services for the Clients, provided that any fee or other compensation paid to Rialto in connection with such services will either (x) be approved by LPAC, if applicable, or majority limited partner consent, or (y) be on terms and conditions (including for consideration) consistent with those generally available in arm’s-length transactions with qualified independent third parties for a comparable quality service, in which case item (y) will be presented to the LPAC, if applicable, annually for its review.

In addition, Rialto will, from time to time, perform asset level field due diligence, loan file due diligence, the production of property or loan level business plans and valuations, loan and real estate owned asset management services, asset level accounting, legal, and tax services, and other similar services that outside professionals or outside consultants otherwise would typically perform with respect to investments.

The Fund may buy assets from (or sell assets to) affiliates of the General Partner and the Manager (including Stone Point) and otherwise engage in transactions that would constitute “principal transactions” under Section 206(3) of the Advisers Act, subject to the approvals required under the Limited Partnership Agreement.

Subject to the terms of the Governing Documents, an affiliate of the General Partner and the Manager may participate as an investor or joint venture partner in one or more co-investment opportunities with the Fund.

Property Services. As provided for in the Governing Documents, an affiliate of Rialto may be engaged to perform property, construction or development, management, leasing and related or

similar types of services for Clients, and for which the Clients would otherwise retain third parties.

Loan servicing. Rialto Servicing, has been engaged to provide loan servicing, asset management, and similar services in accordance with approved rates.

Investment-level services. The Clients' Governing Documents provide that Rialto, and their respective affiliates, will perform asset-level field due diligence, loan file due diligence, loan and real estate owned asset management services, asset-level accounting, loan servicing and other similar services that outside professionals or outside consultants otherwise would perform for the Client. As discussed in Item 5, fees for these investment-level services vary by Client and are more fully described in each Client's Governing Documents.

Placement Agents, Finders and Other Persons

The Funds may utilize placement agents to assist in raising capital for a specific Fund. Any such placement agent will be compensated based on the capital raised, which means it will have an interest in obtaining capital commitments to the Fund irrespective of the agent's beliefs about the performance of the Fund or its evaluation of Rialto, the Stone Point Group or the investment opportunity. A Client or a General Partner may also compensate finders, whether engaged by a Client, General Partner or Rialto, the Stone Point Group or by any prospective investor. Each prospective investor should assume, unless told otherwise by Rialto, that any third party involved in its decision to invest is compensated for its recommendation in a way that may give such person a strong incentive to encourage investment in the Fund and/or to act in ways that are not in the best interest of the prospective investor.

Advisors, Consultants and Partners

Rialto and its parties engage and retain advisors, consultants and partners ("Consultants") to provide a variety of services. Any amounts paid by a Client, including performance-based compensations (e.g., promote), retainers and expense reimbursements, will be treated as an expense of the Clients, and will not be, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Rialto, be chargeable to Rialto or deemed paid to or received by Rialto, or offset or reduce investment management fees to Rialto or be subordinated to return of capital. Amounts charged by consultants will not necessarily be confirmed as comparable to market rates for such services.

The time dedication and scope of the work of a Consultant varies considerably. In some cases, a Consultant provides Rialto with industry-specific insights and feedback on investment themes, assists in transaction due diligence, and makes introductions to, and provides references checks on, management teams. A Client may rely on these Consultants to recommend Rialto and the Client as a preferred investment partner and carry out its investment program, but there is no assurance that any Consultant will continue to be involved with a Client for any length of time. Rialto and its Clients can be expected to have formal and informal relationships with Consultants that may or may not have termination options and include arrangements for compensation, no compensation or deferred compensation until occurrence of a future events, such as

commencement of a formal engagement. In certain cases, Consultants have attributes of Rialto “employees” (e.g., they can be expected to have dedicated offices at Rialto, receive administrative support from Rialto personnel, participated in general meetings and events for Rialto personnel or on Rialto matters as their primary or sole business activity, have Rialto-related email addresses or business cards and participate in certain benefit arrangements typically reserved for Rialto employees), even though they are not Rialto employees, affiliates or personnel for purposes of the Governing Documents, and their salary and related expenses may be paid by a Fund or Client without any reduction or offset to investment management fees.

The Consultant could be compensated with a salary and equity incentive plan, including a portion of profits derived from the Client’s investment or assets of the Client or other long term incentive plans. The Client could initially bear the cost of overhead (including rent, utilities, benefits, salary or retainers for the individuals or their affiliated entities) and the sourcing, diligence and analysis of investments. None of such Consultants will be treated as affiliates of the Adviser for purposes of the Governing Documents and none of the fees, costs or expenses described above will reduce or offset the investment management fee.

Allocation of Management Time and Services; Limited Role of Stone Point

The Clients do not have independent management or employees and will instead rely upon affiliates of the General Partner, including management and other personnel of Rialto, and independent contractors engaged by Rialto for the acquisition, management, servicing, administration and disposition of the Fund’s investments, none of whom will work full time for the Fund.

While there are certain consequences if, during the Commitment Period, (i) Jeffrey Krasnoff ceases to devote substantially all of his business time to the activities of Rialto, the Fund and certain other clients and accounts currently and/or in the future managed by the General Partner, the Manager and/or their respective affiliates and their investments, or (ii) there ceases to be at least three named key persons devoting a substantial majority of their business time and attention to Rialto, Clients currently and/or in the future managed by Rialto and/or their respective affiliates and their investments, none of such persons are expected to work full time for a specific Client. Each of such persons will perform services not only for the Clients but also for Rialto and other investments and investment advisory relationships outside of the Clients. Such persons may also engage in personal investments and charitable or civic activities that may occupy a portion of their time and attention.

The General Partner and Rialto believe that they and their affiliates have recruited or can recruit sufficient personnel to enable them to discharge their respective responsibilities to the Clients, although no assurance can be given that sufficient personnel can be recruited and retained at all times. In addition, conflicts of interest may arise in allocating management time, services, resources or functions among the Clients and Rialto.

Stone Point will not be actively involved in the day to day operations of Rialto, the Funds or Clients and their investments and Stone Point and its personnel are not required to dedicate any amount of time to the Rialto business or the Fund, Clients or their investments. No member of the

Stone Point Group will sit on the Investment Committee. In addition, funds managed by Stone Point are not required to hold a direct or indirect ownership interest in Rialto for any specific period of time, and private equity funds typically liquidate their portfolio holdings prior to the end of the fund's term, which would potentially be shorter than any Fund's term. For these reasons, as well as the possibility of foreclosure under the Acquisition Loan (as defined below), prospective investors should understand that any role of Stone Point with respect to Rialto may be discontinued at any time. Accordingly, no prospective investor should rely on the efforts of Stone Point or any member of the Stone Point Group when deciding whether to invest in a Fund.

In connection with the acquisition of Rialto by funds managed by Stone Point in partnership with Rialto's management, as described above, Rialto Management Group, LLC, the indirect parent of the Adviser, borrowed funds from a lender to finance the acquisition. In connection with the Acquisition Loan, the lender was granted a security interest in the equity of subsidiaries of Rialto Capital Group Holdings, Inc. (the parent of Rialto Management Group, LLC and also an indirect parent of the Manager). This includes a pledge of the equity of the Adviser and its subsidiaries (as well as their respective assets). No pledge or guarantee under the Acquisition Loan encumbered any Fund assets; however, the security interest under the Acquisition Loan includes the fees receivable by the Manager from its Clients. If there were to be a default under the Acquisition Loan that were to continue beyond any applicable notice and cure periods, the lender may be entitled to foreclose upon the collateral pledged to it, including the equity interest in the Adviser and its subsidiaries, which would be expected to have a material adverse effect upon Rialto and its Clients. In addition, any such foreclosure would negatively affect the alignment of interests between the members of the management team and the Clients, which is achieved in part through the participation of the executive management team in a compensation plan that includes profit sharing and equity participation in the Adviser.

Co-Investment Opportunities

Clients may, at Adviser's option, provide co-investment opportunities to one or more limited partners. In these cases, while the Adviser will seek to act in the best interest of the Client, it might be alleged that the Client received a smaller investment allocation in the particular issuer than it otherwise might have received if Rialto had not provided such co-investor with the co-investment opportunity. In addition, the General Partner may agree to provide co-investment opportunities related to the Client to some, but not all, limited partners pursuant to the Client's co-investment policies (which may provide for co-investment opportunities to be offered based upon capital commitments or other criteria). The Adviser may also have a conflict of interest in deciding whether to treat a potential co-investment opportunity as a co-investment (which might require it to offer the opportunity to certain limited partners) or deem it a joint venture, in which case the opportunity may be offered to third parties, including in transactions where the joint venture partner is granted certain approval or management rights with respect to the venture and Rialto receives fees, costs or expenses and/or a carried interest from a third party or the joint venture.

Diverse Interests of Partners

The Funds and their respective limited partners may have conflicting investment, tax and other interests with respect to the investments made by the Funds or Clients. Conflicts of interest may arise in connection with decisions made by the Adviser, including with respect to the nature or structuring of investments, which may be more beneficial for one or more of the limited partners of a Fund, on the one hand, than the Fund, on the other hand, or that may be more beneficial for one type of investor in the Fund than for another type of investor in the Fund. For instance, the manner in which a particular investment is structured, or the manner in which one or more investments are reported for tax purposes, may produce tax results that are favorable to one or more partners of a Fund, but not to the Fund (or vice versa), or are favorable to a U.S. investor as compared to a non-U.S. investor (or vice versa) or a taxable investor as compared to a tax-exempt investor (or vice versa). In selecting investments appropriate for the Clients and in structuring those investments, the Adviser will generally consider the investment objectives of each Client as a whole, rather than the investment, tax or other objectives of the specific limited partners or interest holders in the Client's investments separately. In addition, the Client may take tax or other reporting positions that may benefit or detriment one or more groups of investors, and the Adviser or its affiliates may face certain tax risks based on positions taken by the Clients, including as a withholding agent. The Adviser reserves the right on behalf of itself and its affiliates to take positions adverse to Clients in these circumstances, including by withholding amounts to cover actual or potential tax liabilities.

Various Loan- and Property-Level Conflicts of Interest

Many property managers for the properties owned by a Client or securing loans in a pool or loans held by Clients or their affiliates may manage additional properties, including properties that may compete with those properties. Affiliates of the property managers, and certain of the property managers themselves, also may own other properties, including competing properties. The managers of the properties owned by Clients or securing the loans in pools or loans held by Clients may accordingly experience conflicts of interest in the management of those properties. There can be no assurance that a property manager will not divert potential tenants from a property owned or managed by it and securing one of the Clients' loans to a competing property that is owned or managed by it or an affiliate.

Affiliates of the Adviser or the Stone Point Group may serve as the property manager to some or all of the investments, and in this capacity would be entitled to fees for their services. The Adviser has an incentive to use its affiliates for such purposes, rather than engaging third parties. Any fee or other compensation paid to Rialto or its affiliates in connection with extraordinary due diligence, servicing, special servicing, property management, maintenance, construction and/or development, leasing, escrow, title or similar types of services for the Client will either (x) be approved by LPAC consent, if applicable or (y) be on terms and conditions (including for consideration) consistent with those generally available in arm's-length transactions with qualified independent third parties for a comparable quality service, in which case item (y) will be presented to the LPAC, if applicable, annually for its review.

Many of the borrowers under the loans in a pool or loans held by Clients may own other properties and, in some cases, those other properties may compete with the property securing a loan in a pool or a loan held by a Client. There can be no assurance that a borrower or an affiliate of a borrower will not divert potential tenants from a property owned by such borrower and securing one of the loans in a pool or loans held by a Client to a competing property that is owned by such borrower or one of its affiliates.

If a property is leased in whole or substantial part to the borrower under a loan or to an affiliate of the borrower, there may be conflicts. For instance, a landlord may be more inclined to waive lease conditions for an affiliated tenant than it would for an unaffiliated tenant. There can be no assurance that the conflicts arising where a borrower is affiliated with a tenant will not adversely impact the value of the related loan held by the relevant Client (or in a CMBS pool for which the Client holds certificates). Insofar as a borrower affiliate leases space at a property, a deterioration in the financial condition of the borrower or its affiliates can be particularly significant to the borrower's ability to perform under the loan, as it can directly interrupt the cash flow from the property if the borrower's or its affiliate's financial condition worsens.

Broken (or Dead) Deal Expenses

The Adviser is not required to and, in most circumstances, will not seek reimbursement of broken or dead deal expenses (i.e., expenses incurred in pursuit of an investment that is not consummated) from third parties, including counterparts to the potential transaction or potential co-investors. Examples of such broken or dead deal expenses include, but are not limited to, reverse termination fees, extraordinary expenses such as litigation costs and judgments, travel and entertainment expenses incurred, and legal, accounting, tax and other due diligence and pursuit costs and expenses). Any such broken or deal expenses could, in the sole discretion of the Adviser, be allocated solely to a Client and not to other Clients, co-investors or other Rialto vehicles that could have made the investment, even when the other Clients, co-investors or other Rialto vehicles commonly invest alongside the Client in its investments or Rialto or other Clients in their investments. In such cases a Client's shares of expenses would increase. In the event broken or dead deal expenses are allocated to Clients, co-investors or other Rialto vehicles, the Adviser or Client will, in certain circumstances, advance such fees and expenses without charging interest until paid by the Clients, co-investors or other Rialto vehicles, as applicable.

Related Party Leasing

Certain assets related to a Client's investments, owned by a Client, in certain circumstances, lease property to or from another Client, Rialto or its related parties. The leases are generally expected to be at market rates. Rialto can be expected to confirm market rates by reference to other leases it is aware of in the market, which Rialto expects to be generally indicative of market given the scale of Rialto's real estate business. Rialto requests the relevant Fund's or Client's LPAC, if applicable, approval of the rates prior to execution of a lease with a related party. Rialto will nonetheless have conflicts of interest in making these determinations. There can be no assurance that a Client will lease to or from any such related parties on terms as favorable to a Client as would apply if the counterparties were unrelated.

Joint Venture Partners

A Client has and will from time to time enter into one or more joint venture arrangements. Investments made with joint venture partners will often involve performance-based compensation and other fees payable to such joint venture partners, as determined by the Adviser in its sole discretion. The joint venture partners could provide services similar to those provided by the Adviser to a Client. Yet, no compensation or fees paid to the joint venture partners would reduce or offset investment management fees or performance-based compensation payable to the Adviser. Additional conflicts would arise if a joint venture partner is related to Rialto in any way, such as an investor in, lender to, a shareholder of, or a service provider to Rialto, Clients, the Stone Point Group or any affiliate personnel, officer or agent of any of the foregoing.

Valuation Matters

The fair value of all investments (including any asset received in exchange for any investments or interests in a Client, as applicable) will ultimately be determined by the Adviser in accordance with the Governing Documents and the Adviser's valuation policy and procedures. It will, in certain circumstances, be the case that the carrying value of an investment may not reflect the price at which the investment is ultimately sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation methodologies used to value any investment will involve subjective judgments and projections and will, in certain circumstances, not be accurate. Valuation methodologies will also involve assumptions and opinions about future events, which may or may not turn out to be correct. Ultimate realization of the value of an asset depends to a great extent on economic, market and other conditions beyond Rialto's control. While the Adviser's valuation policy permits the Adviser, at its discretion, to seek inputs for the valuation of investments from unaffiliated third party valuation agents, it does not typically do so. There will be no retroactive adjustment in the valuation of any investment or the offering price at which interests in a Client were purchased by investors or repurchased by a Client, as applicable, to the extent any valuation proves to not accurately reflect the realizable value of an asset in a Client. However, the valuation of any investment has no direct economic impact to Fund investors.

The valuation of investments of Funds will, in certain circumstances, affect the decision of potential investors to subscribe for interests in a Fund. Similarly, the valuation of investments of a Client will, in certain circumstances, affect the ability of Rialto to form and attract capital to Clients. As a result, the valuation of investments of a Client, which generally remains in the sole discretion of Rialto, involve conflicts.

Affiliated Investors

Certain investors in a Client or a Fund, including current and/or former senior advisors, officers, directors and personnel of Rialto and its affiliates and Stone Point Group and its affiliates established by or associated with any of the foregoing, and other persons related to Rialto and the Stone Point Group, will not pay investment management fees or performance-based compensation in connection with their investment in a Client or a Fund. Notwithstanding the foregoing, such investors will either directly pay for their pro rata share of certain partnership expenses, or the pro

pro rata amount of such expenses will be allocated to the Adviser or its affiliates. Such pro rata allocation of partnership expenses will, in certain circumstances, be calculated based on commitments, invested capital, available capital or other metrics as determined by the Adviser in good faith. Any such methodology (including the choice thereof) involves inherent conflicts and will, in certain circumstances, not result in perfect attribution and allocation of expenses.

Conflicts Relating to a Subscription Credit Facility

Certain Clients enter into and utilize a subscription credit facility, which involves potential conflicts of interest. Subject to the limitations in the Governing Documents, the use of a subscription credit facility by a Client is within the Adviser's discretion. Generally and without limiting the foregoing, a Client can be expected to seek to utilize a subscription credit facility for the purpose of, among other things, financing any investment-related activities of a Client (such as for assets that a Client does not intend to hold for a long term period), covering Client expenses, fees and any other costs of a Client, making distributions to limited partners, providing permanent financing or refinancing or providing interim financing to consummate the purchase of investments. The amount of credit available to a Client under a subscription credit facility is determined by the credit quality of the Investors as determined by the lender. For this reason, investors with a higher credit quality, as determined by the lender, generate more credit for a Client than investors with a lower credit quality, which results in an indirect benefit conferred by the higher credit quality Investors to the others.

Calculations of net and gross internal rates of return ("IRR") in respect of investment and performance data as reported to investors from time to time, are based on the payment date of capital contributions received from investors. This treatment also applies in instances where a fund utilizes borrowings under a fund's subscription credit facility in lieu of, or in advance of receiving capital contributions from Investors to repay any such borrowings. As a result, use of a subscription credit facility (or other long-term leverage) will impact calculations of returns and will result in a higher or lower reported IRR than if the amounts borrowed had instead been funded through capital contributions made by the Investors to a Client. If the use increases the IRR, as it normally does, Rialto will have various incentives to use the subscription credit facility, including marketing efforts of Clients. For example, in the event the interest rate on borrowings is lower than the hurdle rate, use of leverage arrangements can be expected to accelerate or increase distributions of performance-based compensation to the Adviser, providing an economic incentive to fund investments through long-term borrowings in lieu of capital contributions.

A Client expects to utilize its subscription credit facility and enter into other similar arrangements and extensions of credit for the benefit of co-investors, joint venture partners and other Clients, which invest alongside a Client in one or more investments. For example, a Client can be expected to draw from a borrowing to fund a joint venture partner's or co-investor's pro rata share of an investment or expense related to an Investment. In such circumstances, the Adviser generally intends to disclose such arrangements as part of the periodic reporting or other appropriate communications relating to a Client and to cause any such co-investors, joint venture partners and other Clients to bear (or reimburse a Client for) their pro rata share of any interest expenses (but not necessarily origination and other costs) allocable to such extensions of credit. The Adviser will, in certain circumstances, receive direct and indirect benefits from such uses as

well, including as a result of the facilitation of co-investors, joint venture partners and other Clients. A Client will pay interest expenses and other expenses incurred in relation to the line of credit.

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

Code of Ethics

Pursuant to Rule 204A-1 of the Advisers Act, Rialto has adopted a written Code of Ethics (the “Code”) which sets forth standards of conduct for Access Persons. The Code requires all Rialto employees deemed Access Persons to recognize their obligations to act in the best interests of Clients, avoid any situations that may present or appear to present an actual or potential conflict, comply with federal securities laws and promptly report any violations of these laws or provisions of the Code.

Rialto’s Code also reflects provisions addressing conflicts of interests that arise from its employees’ personal trading. Employees deemed Access Persons must request the CCO’s approval prior to making an investment in an initial public offering or a private limited offering. Employees deemed Access Persons are also required to periodically submit reports of their personal securities transactions and holdings, a requirement that extends to the immediate family members of employees deemed Access Persons who live in the same household.

For more information about Rialto’s Code, Clients and Fund investors and prospective Clients and Fund investors may request a copy by contacting the CCO at (786) 745-3494.

In some instances, principals and employees of Rialto, as well as the General Partners, their affiliates, and related persons invest in the Funds. Although they bear their proportionate share of the relevant Fund’s expenses, such Rialto employees, affiliates, or related persons are generally not subject to investment management fees or carried interest.

As set forth in the Governing Documents, co-investment opportunities may be presented to certain Fund investors or other third parties, including Rialto’s affiliates or related persons. Rialto will determine the allocation of investment opportunities in accordance with the relevant Client’s Governing Documents and its investment allocation policy, considering factors such as the Client’s investment restrictions and objectives, investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

As discussed previously herein, since Rialto and the Funds’ General Partners engage in a broad spectrum of real estate related activities, they may have direct or indirect interests in real properties that are in the same markets as, and compete with, certain of the real properties underlying the investments held by Clients. Please see Item 10 for additional information.

Participation or Interest in Client Transactions

Principal Transactions

When permitted by applicable law and subject to and in accordance with the terms of the Governing Documents of the applicable Client, Rialto may effectuate principal transactions where a Client may have the opportunity to purchase investments from or sell investments to Rialto or its

affiliates or any fund or account deemed to be controlled by Rialto or its affiliates. There may be potential conflicts of interest or regulatory issues relating to these transactions which could affect Rialto's decision to engage in these transactions for Clients. In connection with a principal transaction, Rialto and its affiliates may have a potentially conflicting division of loyalties and responsibilities regarding a Client and the Rialto parties. Rialto has developed policies and procedures in relation to such transactions and to address such conflicts. Under these policies and procedures, Rialto discloses the material terms of the transaction (including pricing information) and the conflict to its Client and obtains consent (either directly from the Client's or Fund's investors or indirectly from the LPAC or an agent on behalf of such investors).

Item 12: Brokerage Practices

To the limited extent that Rialto transacts in public securities or other non-private equity investments (e.g., currency hedging) that require the use of a financial intermediary such as a broker-dealer, Rialto will select an intermediary based on its ability to provide best execution for its Clients. Rialto is generally authorized to make the following determinations, subject to each Client's investment objectives and restrictions, without obtaining prior consent from the relevant Client: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for transactions.

Item 13: Review of Accounts

All investments are reviewed and approved by Rialto's CEO and President and, where applicable, a Client specific investment committee. The investment committees include Rialto's CEO, President, managing directors and other senior investment professionals. The composition of any investment committee may change from time to time. Investment professionals responsible for identifying and conducting due diligence on each investment present the investment to the applicable investment committee, which will make the final decision with respect to the investment opportunity.

Following the acquisition of an investment, such investment is monitored on an ongoing basis by designated asset management professionals. The asset management group meets periodically and reviews Client portfolios. Generally, on a quarterly basis, Rialto's valuation committee meets to perform reviews of assets held in Client portfolios.

The nature and frequency of regular reports to Clients and/or Fund investors depends on the terms of the Governing Documents of each respective Client or Fund investor. Typically, Fund investors are provided with written quarterly unaudited financial reports and annual audited financial statements. Rialto also holds annual meetings with Fund investors of certain Funds.

Item 14: Client Referrals and Other Compensation

Rialto has entered into written agreements with placement agents/finders for the referral of Fund investors. These agreements generally provide that Rialto will pay the placement agent/ finders a fee for referring prospective investors to the Funds. These fees typically are based on a percentage of the aggregate commitments from Fund investors referred by the placement agent/ finder.

Any referral arrangements for Fund investors and Clients will be made in accordance with Rule 206(4)-3 of the Advisers Act, as applicable.

Item 15: Custody

In connection with its investment management and advisory services, Rialto is deemed to have custody of its Clients' assets. Rule 206(4)-2 under the Advisers Act (the "Custody Rule") defines custody as holding client securities or assets, or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts, or ownership of or access to client funds or securities (such as through fee deductions). While Client assets are held in custody of unaffiliated broker/dealers or banks (except as otherwise permitted for certain uncertificated investments), Rialto is deemed to have custody as defined under the Custody Rule.

Specifically, Rialto's affiliate processes payments on loans that underlie investments held by Clients, and therefore has direct access to these assets. Rialto also has the authority to direct the movement of funds out of accounts through which these payments are processed. Furthermore, the General Partners are Rialto affiliates and have full discretion over the Funds' assets. Investors in the Funds and any feeder or blocker funds where Rialto is deemed to have custody, if applicable, will not receive statements from custodians. Instead, the Funds and any feeder or blocker funds where Rialto is deemed to have custody, are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board (a "Qualified Auditor"), and the audited financial statements are distributed to investors in each Fund and any feeders, if applicable. Separate account Clients do receive statements from their custodian and Rialto is subject to surprise examination by a Qualified Auditor with respect to certain Clients that are separately managed accounts.

Item 16: Investment Discretion

Rialto has discretionary authority with respect to most Clients' accounts to determine the securities and amounts to be bought or sold on their behalf without obtaining specific consent from its Clients. Rialto exercises its investment discretion pursuant to Management Agreements it executes with Clients and/or, as applicable, the terms and conditions of Fund Governing Documents.

Item 17: Voting Client Securities

Clients typically do not invest in public securities for which proxies are issued. However, in accordance with its fiduciary duty to Clients and Rule 206(4)-6 of the Advisers Act, Rialto has adopted and implemented written policies and procedures governing the voting of Client securities to address the rare occasion on which this may occur. Specifically, Rialto generally votes proxies in line with company management; however, Rialto reserves the right to vote against management, or abstain from voting, if, in its discretion, Rialto determines that it would be in the best interest of Clients to do so. Rialto will seek to avoid material conflicts of interest between its own interests on the one hand, and the interests of its Clients on the other.

Rialto maintains proxy voting policies and procedures, as well as a record of how it has voted, and these are available for review upon written request. Client investors may obtain this information by contacting the CCO by telephone at (786) 745-3494.

Item 18: Financial Information

Rialto does not require or solicit prepayment for its advisory services from its Client six months or more in advance. Rialto has not been subject to any bankruptcy proceeding during the past 10 years and is not aware of any financial condition that is likely to impair its ability to meet contractual commitments to Clients.