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**FORM ADV PART 2A: FIRM BROCHURE**

**ITEM 1 – COVER PAGE**

**LIONHEART STRATEGIC MANAGEMENT, LLC**

**March 30, 2023**

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605 Third Avenue  
36<sup>th</sup> Floor  
New York, NY 10158

This document (the “Brochure”) provides information about the qualifications and business practices of Lionheart Strategic Management, LLC. If you have any questions about the contents of the Brochure, please contact Andrew Klein at [aklein@lionheartstrategic.com](mailto:aklein@lionheartstrategic.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Although the firm may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

Additional information about the firm is also available on the SEC’s website at <http://www.adviserinfo.sec.gov>.

## **ITEM 2 – MATERIAL CHANGES**

Since the last annual update to the Brochure, dated February 15, 2022, Lionheart Strategic Management, LLC has updated the disclosures in this Brochure with respect to its separate account clients and Item 10 “Other Financial Industry Activities and Affiliations” as described in such Item.

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## **ITEM 4 – ADVISORY BUSINESS**

### **A. General Description of the Advisory Firm**

Lionheart Strategic Management, LLC (“Lionheart” or the “Firm”), is a Delaware limited liability company established in 2017 that provides investment advisory services to pooled investment vehicles and an alternative investment program. The principal owner of the Firm is Lionheart Strategic Management Holdco, LLC (“Holdco”). The principal owners of Holdco also are principal owners of Fisher Brother Management Co. LLC, a real estate development firm (together with certain affiliates, “Fisher Brothers”). Although the Firm is affiliated with Fisher Brothers, it is governed by a majority independent board of directors, operates independently and conducts its investment advisory business separately from the business of Fisher Brothers.

### **B. Description of Advisory Services**

The business of Lionheart is primarily to provide investment advisory and management services to commingled investment funds, separate accounts or other investment vehicles or programs that invest in credit and mezzanine capital investments as described herein.

Currently, Lionheart provides discretionary advisory and management services to Lionheart Mezzanine Capital Investors, LP (“LMCI”). In addition, Lionheart provides non-discretionary advisory and management services to an alternative investment program with institutional investors (“LRECS” and together with LMCI, the “Clients”). Currently, LMCI is substantially invested, and no new capital is being accepted.

Lionheart may provide discretionary and non-discretionary advisory and management services to other investment funds and institutional investors in the future.

The advisory services provided by Lionheart to the Clients are primarily with respect to real estate credit investments. Specifically, the Clients were formed to, directly and indirectly, acquire credit and mezzanine capital investments in mortgages, junior notes and participations, preferred equity, mezzanine debt, and other real estate-related debt and debt-like investments secured by or deriving value from real estate-related assets located in the United States. Investments may be acquired individually or may consist of a portfolio or other group of assets purchased in a single transaction or series of related transactions, and similar pools of debt and debt-like investments secured by real estate. The Firm does not intend to make any material investments in any properties owned or controlled by Fisher Brothers.

The Firm also provides administrative services with respect to the real estate-related loans and preferred equity investments of certain institutional separate account clients (the “Separate Accounts”).

### **C. Tailored Advisory Services**

Lionheart provides advisory services to the Clients in accordance with the terms set forth in the operating agreement of the Client and/or the investment management agreement between Lionheart and the Client (the “Governing Documents”), including investment guidelines. Among other things, these guidelines may provide for limits on the size, concentration, geography, type of security and/or terms of the Clients’ investments. Investors should refer to the Governing Documents of the Clients for complete information

regarding investment objectives and restrictions. There is no assurance that the investment objectives of the Clients will be achieved.

The administrative services to the Separate Accounts are provided in accordance with the terms set forth in the servicing agreement with each Separate Account (the “Servicing Agreements”). Lionheart does not provide any investment advice or recommendations to the Separate Accounts under the Servicing Agreements.

**D. Wrap Fee Programs**

Lionheart does not participate in wrap fee programs.

**E. Assets Under Management**

As of December 31, 2022, Lionheart managed assets of approximately \$34,329,686 on a discretionary basis and \$324,214,203 on a non-discretionary basis.

**ITEM 5 – FEES AND COMPENSATION**

**A. Compensation for Advisory Services**

In consideration of the management and advisory services provided by Lionheart to the Clients, the Clients pay fees to Lionheart in accordance with their respective Governing Documents.

**LMCI Fees**

Lionheart receives Base Management Fees and Supplemental Management Fees from LMCI (together, the “LMCI Management Fees”). The Base Management Fee is payable quarterly in advance and calculated as 1.0% per annum of each limited partner’s aggregate invested capital in LMCI as of the last day of the preceding quarter.

The Supplemental Management Fee is payable in arrears upon the realization of each LMCI investment and calculated as 0.50% per annum of each limited partner’s aggregate invested capital in such investment. The Supplemental Management Fee shall not be payable for any investment for which less than one hundred percent (100%) of the capital contributions made by the limited partners has been distributed.

The LMCI Management Fees shall be prorated for any partial calendar quarters. Additionally, Lionheart has the right, in its absolute discretion, to waive, reduce, offset or otherwise return to certain investors all or a portion of the LMCI Management Fees received by Lionheart with respect to such investors.

**LRECS Fees**

The management fee paid to Lionheart by LRECS is described in its Governing Documents. Lionheart also receives performance-based compensation from LRECS equal to a percentage of the realized gains of LRECS assets managed by Lionheart as described in the Governing Documents.

Since management fees paid to Lionheart by LMCI and LRECS are based on the net asset value of each Client, a conflict may also arise when Lionheart or a related person is valuing the assets held in the Client account. Assets will generally be valued at fair value by Lionheart or its related person in accordance with U.S. generally accepted accounting practices.

### **Separate Account Fees**

The fees paid to Lionheart by Separate Accounts are generally subject to negotiations and described in their respective Servicing Agreements. Such fees may be a fixed dollar amount or calculated based on a percentage of the outstanding amounts of any loans and/or preferred equity investments that are the subject of the Servicing Agreements.

#### **B. Charging Fees**

Lionheart primarily deducts fees from the assets of the Clients and Separate Accounts. With respect to LMCI, the Base Management Fee is payable quarterly and the Supplemental Management Fee, if applicable, is payable upon the realization of investments.

#### **C. Other Fees and Expenses**

In addition to compensation payable to Lionheart, the Clients are responsible for paying the operating expenses of their accounts, including brokerage fees, transaction costs and other investment-related expenses; administrative, accounting and custody expenses; and other expenses described in their respective Governing Documents. The Firm may, at its discretion, choose to pay or reimburse a Client for all or any portion of such expenses. In such event, the Firm may be reimbursed at a later date by the Client for such expenses borne by the Firm. See Item 12 for additional information about the Firm's brokerage practices with respect to Client accounts.

#### **D. Timing of Fee Payments**

As described above and in the Governing Documents, fees are generally paid quarterly in advance or arrears, as circumstances dictate. Accounts initiated or terminated during the relevant periods are charged pro-rated fees, and any unearned portion of a fee paid at the beginning of the quarter will be refunded by Lionheart to the Client.

#### **E. Payments to Supervised Persons**

Neither Lionheart nor any of its covered persons or supervised persons directly or indirectly receive any compensation from the sale of securities or other investment products.

### **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

LMCI does not charge any performance-based fees. The performance-based fees for LRECS are set forth in its Governing Documents. Fees based on performance will only be charged in accordance with the provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Performance-based compensation may create an incentive for Lionheart to cause LRECS to make investments that are riskier than it would otherwise make.

As one but not all Clients pay performance-based compensation, Lionheart has an incentive to treat the one Client preferentially as compared to others because that Client pays performance-based compensation. Lionheart has adopted a policy to allocate portfolio transactions and investment opportunities across multiple Client accounts on a fair and equitable basis over time.

## **ITEM 7 – TYPES OF CLIENTS**

Lionheart provides advisory services to LMCI, which is a pooled investment vehicle, and to LRECS, which is a non-discretionary alternative investment program for institutional investors. The underlying investors of LMCI include individuals, trusts, corporations and institutional investors that invest at least the minimum investment amount described in its Governing Documents.

The investor suitability requirements for the investors in each Client are set forth in the Governing Documents for such Client.

The Separate Accounts facilitate the provision of loan servicing and other administrative services to institutional investors in real estate-related loans and preferred equity investments.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis and Investment Strategies**

Lionheart's investment strategy has a primary focus on credit and mezzanine capital investments in mortgages, junior notes and participations, preferred equity, mezzanine debt, and other real estate-related debt and debt-like investments secured by or deriving value from real estate-related assets located in the United States. Lionheart's strategy for the Clients is to seek to create a portfolio that will access mezzanine opportunities with the objective of maximizing the return and yield available from the asset class. The Clients may also provide senior subordinated debt in the form of loans, notes and other instruments which often have an equity participation component. In the event of any foreclosure on any collateral underlying or relating to an investment that results in the Clients owning title to real property, any additional capital expenditure with respect to such real property (an "REO Investment") shall be funded outside the Clients through a separate investment vehicle. The evaluation and decision-making with respect to investment opportunities for a Client generally are made by an investment committee established for such Client under its Governing Documents and composed of Lionheart designees and independent third parties.

When evaluating an investment opportunity and before investing on behalf of the Clients, the Firm first determines whether the opportunity meets the investment objectives and strategy criteria of the Clients. Then, the Firm gathers and reviews market data, demographic information, real estate due diligence documents, and the financial information of any sponsor or borrower, to help Lionheart assess whether to make the investment on behalf of the Clients.

Investing in real estate and real estate-related securities involves risk of loss that investors should be prepared to bear, including the risk associated with conflicts of interest and other matters disclosed elsewhere in this Brochure. The concentration of Client investments in real estate and the potential drawbacks associated with the lack of diversity is also a risk. The following is a summary of some of the material risks associated with the strategies the Firm employs on behalf of the Clients. This summary does not attempt to describe all of the risks associated with an investment in the Clients. Furthermore, there can be no assurance that Lionheart will achieve the objectives of the Clients.

Generally, the risks described below are increased the lower (i.e., the more “junior” or “subordinated”) an investment is in the capital structure of an investment or where investments are less liquid. This is particularly true for a mezzanine strategy, which generally invests in lower levels of the capital structure, more levered capital structures, distressed investments or privately negotiated investments. With respect to comparative position in the capital structure, the terms “lower”, “junior” or “subordinated” refer to the priority of the claim in the event of bankruptcy.

#### B. Risk Factors with respect to the Firm’s Investment Strategy

**Below-Investment Grade Instruments.** The below-investment-grade securities, loans and other assets in which the Clients invest are considered to be speculative and involve a high degree of financial risk due to the nature of their issuers’ and obligors’ leveraged capital structures. Such instruments are also commonly known as “junk bonds.” These investments may be (1) unsecured and subordinated to substantial amounts of senior debt (all or a significant portion of which may be secured), (2) may not be protected by financial covenants or limitations on additional debt, (3) may have limited liquidity and (4) may not be rated by a credit rating agency. These instruments are regarded as predominately speculative with respect to the issuer’s continuing ability to meet principal and interest payments. Because investment in below-investment-grade instruments involves greater investment risk, achievement of the Clients’ investment objective will be more dependent on Lionheart’s analysis than would be the case if the Clients were investing in higher-quality, investment grade instruments. In addition, below-investment-grade instruments in leveraged capital structures may be more susceptible to real or perceived adverse economic and issuer-specific developments than investment-grade instruments. Moreover, the secondary trading market for lower quality instruments is generally more volatile and may be less liquid than the market for investment grade securities. This potential lack of liquidity may make it more difficult to accurately value certain portfolio investments. Lionheart intends to monitor portfolio company performance; however, it is primarily the responsibility of a portfolio company’s management to operate the portfolio company on a day-to-day basis, and there is no assurance that management will perform in accordance with Lionheart’s or a Clients’ expectations. Therefore, there can be no assurance that the investments will be able to generate returns for the Clients or that the returns will be commensurate with the risks of investing. It is possible that the Clients will incur losses up to a complete loss of capital.

**General Market and Credit Risks of Debt Securities.** Debt portfolios are subject to credit and interest rate risks. “Credit risk” refers to the potential that an issuer or obligor will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer or obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities or loans which are rated by rating agencies are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general,

rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments may also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

**Illiquid and Long-Term Investments.** An investment may have a contractual return that is not paid entirely in cash, but rather partially or wholly in-kind or as an accreting liquidation preference, thus lengthening the time before cash is received and increasing the Clients' risk exposure to the portfolio company. While Lionheart intends to achieve a targeted return for a given investment over time, other factors such as overall economic conditions, the competitive environment and the availability of potential purchasers or capital for the refinancing of the securities, may shorten or lengthen holding periods and some investments may take longer than initially planned from the initial investment date to achieve a realization. It is anticipated that there will not be a public market for a substantial portion of the securities held by the Clients. Therefore, if Lionheart determines or is required to liquidate all or a portion of the Clients' portfolio positions quickly, the Clients may realize significantly less than the value at which its investments were previously recorded.

**Availability of Suitable Investments; Competition.** The identification of attractive investment opportunities is difficult and highly uncertain. There can be no assurance that Lionheart will be able to invest the Clients' capital fully or that suitable investment opportunities will be identified. Lionheart often seeks to invest in companies with relatively short operating histories and lower revenues or companies that have undergone leveraged buyouts or recapitalizations. The success of the Clients' portfolios will depend on the ability of Lionheart to originate, recommend, structure, identify and consummate suitable investments in a highly competitive environment, to improve the operating performance of portfolio companies, and to dispose of investments at a profit. Lionheart competes with the public and private debt and equity markets and with other investors, including other asset management firms, mezzanine funds, private equity funds, hedge funds, direct investment firms, business development companies and merchant banks for investment opportunities.

**Business and Regulatory Risks.** Legal, tax and regulatory changes in the U.S. and outside the U.S. could occur and adversely affect the Clients. The regulatory environment for private investment vehicles is evolving, and changes in such regulation may adversely affect the value of investments held by the Clients. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Legal, tax, and regulatory changes, as well as judicial decisions, could adversely affect the implementation of the Clients' investment strategy. The effect of any future regulatory change on the Clients could be substantial and adverse. Alternative rules or legislation regulating the Clients or Lionheart may be adopted, and the possible scope of any rules or legislation is unknown. There can be no assurances that the Clients or Lionheart will not in the future be subject to regulatory review or discipline. The effects of any regulatory changes or developments on the Clients may affect the manner in which it is managed and may be substantial and adverse.

**Cybersecurity Risk.** In addition to the risks described above that primarily relate to the value of investments, there are various operational, systems, information security and related risks involved in investing, including but not limited to "cybersecurity" risk. Cybersecurity attacks include electronic and

non-electronic attacks that include but are not limited to gaining unauthorized access to digital systems to obtain client and financial information, compromising the integrity of systems and client data (e.g., misappropriation of assets or sensitive information), or causing operational disruption through taking systems off-line (e.g., denial of service attacks). As the use of technology has become more prevalent, Lionheart and the Clients Lionheart manages have become potentially more susceptible to operational risks through cybersecurity attacks. These attacks in turn could cause Lionheart and the Clients to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. Similar adverse consequences could result from cybersecurity incidents affecting issuers of securities in which Lionheart invests, counterparties with which Lionheart engages in transactions, third-party service providers (e.g., a Client's custodian), governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers and other financial institutions and other parties. While cybersecurity risk management systems and business continuity plans have been developed and are designed to reduce the risks associated with these attacks, there are inherent limitations in any cybersecurity risk management system or business continuity plan, including the possibility that certain risks have not been identified. Accordingly, there is no guarantee that such efforts will succeed, especially since Lionheart does not directly control the cybersecurity systems of issuers or third-party service providers.

**Outbreaks of Infectious or Contagious Diseases.** During 2020, the World Health Organization declared a pandemic with respect to an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"). The outbreak of COVID-19 resulted in numerous deaths, adversely impacted global commercial activity, and contributed to significant volatility in global equity and debt markets. Many countries reacted by instituting quarantines; prohibitions on travel; and the closure of offices, businesses, schools, retail stores, and other public venues. Private businesses also implemented similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, have created significant disruption in supply chains and economic activity and had a particularly adverse impact on transportation, hospitality, tourism, entertainment, and other industries, which continues as of the date of this Brochure. The long-term impact of COVID-19 on global, regional, or local economies remain uncertain and difficult to assess.

Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola or other existing or new pandemic or epidemic diseases, or the threat thereof, could have a significant adverse impact on the Clients and their investments and could adversely affect the Firm's ability to fulfill their investment objectives.

The extent of the impact of any public health emergency on the Clients' and their investments' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency; the extent of any related travel advisories and restrictions implemented; the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence, and levels of economic activity; and the extent of its disruption to important global, regional and local supply chains, and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact the value and performance of the Clients' investments; the Firm's ability to source, manage, and divest investments; and the Firm's ability to achieve its investment objectives, all of which could result in significant losses to the Clients. In addition, the operations of the Firm may be significantly impacted, or even temporarily halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings, and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel.

### C. Risks in Recommending a Particular Type of Security

**Debt Investments.** Investments in debt are associated with a number of risks. Debt which is performing at the time of acquisition may subsequently become sub-performing and/or non-performing. In addition to the risk of borrower default, there is a risk that underlying collateral is mismanaged or otherwise may have declined in value and/or may in the future decline or further decline in value.

Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement, and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Moreover, because Lionheart, in certain situations involving the exercise of remedies or rights under loan documents on behalf of a Client, may obtain contractual rights to participate in or to influence the management of properties by borrowers, the likelihood is increased that a borrower may claim that Lionheart 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. Often the exercise of remedies will not be led or controlled by Lionheart on behalf of the Client, but may be led or controlled by a holder of a different class of securities which may be in conflict with the interests of the Client. As a lender, the Client may also be subject to penalties for violations of state usury limitations, which may result in liability to the Client, including the assessment of penalties.

Investments in loans may involve workout negotiations, restructuring, the possibility of foreclosure and/or a discounted mortgage payoff. However, even if a restructuring were successful, there are risks of a substantial reduction in the interest rate and/or a substantial write-down of a loan's principal which result in adverse tax consequences. Furthermore, the foreclosure process, which may not be led by Lionheart, varies from jurisdiction to jurisdiction and can be lengthy and expensive, and under certain circumstances or in certain states can result in the inability to obtain a deficiency judgment or enforce a personal guaranty.

**Investments in Junior or Subordinate Loans.** In advising the Clients, Lionheart may invest in loans that may not always be protected by financial covenants or limitations on additional indebtedness, and/or may be subordinate to other debt of the borrower. In the event of a default, such loans will only be satisfied after senior debt is paid in full. Inter-creditor arrangements that may exist will also limit Lionheart's ability to amend loan documents, assign the loan(s), accept prepayments, exercise its remedies (through "standstill periods"), and control decisions made in a borrower's bankruptcy proceedings. Accordingly, Lionheart may not be able to take steps necessary to protect Clients' investments in a timely manner or at all and this may result in a loss of the investment.

In cases where one or more subordinate liens exist or are imposed on a mortgaged property, or the borrower incurs other indebtedness, Clients holding such loans will be subject to additional risks, including, without limitation, the following: the risk that necessary maintenance of the mortgaged property could be deferred to allow the borrower to pay the required debt service on the subordinate financing, and as a result, the value of the underlying property may decline; the risk that the borrower may have a greater incentive to repay the subordinate or unsecured indebtedness first; the risk that it may be more difficult for the borrower to refinance the mortgage loan or to sell the mortgaged property for purposes of making any balloon payment upon maturity of the mortgage loan; and the risk that, in the event the holder of the subordinated debt has filed for bankruptcy or been placed in involuntary receivership, foreclosing on the mortgaged property could be delayed, which will result in additional costs and administrative burdens associated with foreclosure or bankruptcy proceeding, or related litigation.

**Mezzanine Loans.** Investments in mezzanine loans are generally secured by a pledge of the ownership interests in the entity that directly or indirectly owns the property, and are typically junior to the obligations of the entity to senior creditors. Mezzanine loans involve a higher degree of risk than senior mortgage loans because the former are generally associated with higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. In the event of a borrower default, mezzanine loans will only be satisfied after senior debt is paid in full and in the event of a bankruptcy, the mezzanine loan holder may not have full recourse to the underlying assets, or the assets may not be adequate to satisfy obligations of the mezzanine loan.

Additionally, because mezzanine debt is secured by the obligor's equity interest in related borrowers, such financing effectively reduces the obligor's economic stake in the underlying mortgaged property. The existence of mezzanine debt may reduce cash flow related to the mortgaged property after the payment of debt service, and could increase the likelihood that the owner of a borrower will permit the value or income producing potential of a mortgaged property to fall. This in turn may increase the risk that a borrower will default on the loan secured by a mortgaged property whose value or income is relatively weak. Generally, upon the default of mezzanine debt, the holder of such debt would be entitled to foreclose upon the equity in the related mortgagor that had been pledged to secure payment on the debt. Such transfer of equity however, could cause the obligor to file for bankruptcy, which could negatively affect the operation of the underlying property as well as the borrower's ability to make timely payments on the related loan.

#### **General Risks Relating to the Clients**

- The Clients could be adversely affected by poor market conditions if properties are concentrated based on property type, geography, related borrower or other factors.
- The Clients are subject to risks associated with a multi-sector investment strategy.
- The Clients' investments may be related to multifamily, office, retail, hospitality, and industrial properties, each of which subjects the Clients to particular risks.
- The Clients' due diligence may not reveal all of the factors affecting an investment and may not reveal weaknesses in prospective investments.
- The Clients may not have control over its investments.
- The Clients' investments may be exposed to risks related to derivative contracts.
- The Clients may make investments with projected returns predicated upon improvement in credit spreads.
- The Clients may be subject to risks related to the prepayment of senior mortgage loans, junior notes and mezzanine loans.
- It may be difficult for the Clients to dispose of its investments.
- The Clients may engage in development, redevelopment and construction activities in the case of troubled investments, which could affect its operating results and create additional risks.
- The Clients may incur risks upon disposition of investments.
- The Clients may not be diversified in its investments.
- Lionheart may be required to make investment decisions on an expedited basis.
- The Clients may be exposed to lender liability risks including equitable subordination.
- There are increased risks involved with construction lending activities.
- The Clients could potentially be subject to environmental and other liability.

- Investment in the Clients may result in adverse tax consequences to different types of investors, and any prospective limited partner should consult its tax advisors in connection with an investment in the Clients.
- The liability of Lionheart is limited under the Governing Documents, and the Clients have agreed to indemnify Lionheart against certain liabilities.
- Due to restrictions on transfer and withdrawal, an investment in the Clients will be illiquid.
- Investors in the Clients may suffer adverse consequences if they default in making capital contributions.
- The Clients expect to call capital over time and the Clients may suffer losses if investors fail to fund their capital commitments.
- Some of the Clients' investments may be required to be held longer than the term of the Clients.
- Uninsured losses or a loss in excess of insured limits could adversely affect the Client's financial condition.
- Investors may incur tax liabilities prior to receiving distributions.

**Potential Conflicts of Interest** There may arise instances where the interests of Lionheart and/or its affiliates conflict with the interests of the Clients and/or its investors. Certain potential conflicts of interest are discussed below. Lionheart will endeavor to resolve conflicts of interest in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

**Investment Opportunities.** Lionheart and its affiliates engage in a broad spectrum of real estate and related investment activities that are independent from, and may from time to time conflict with, the interests of the Clients. Certain affiliates of Lionheart may engage in transactions with, develop, provide services to, invest in, advise, sponsor and/or act as investment manager to real estate companies, real estate projects, investment vehicles and other persons or entities. In addition, affiliates of Lionheart may provide services to properties securing or otherwise relating to the Clients' investments. In the future, Lionheart and/or its affiliates may sponsor, advise, act as investment manager to, engage in transactions with, provide services to or invest in other investment vehicles that may have similar structures and investment objectives and policies to those of the Clients and that may compete with the Clients for investment opportunities and/or co-invest with the Clients in certain transactions.

**Other Investments in Real Estate.** Affiliates of Lionheart have investments in, and provide development, construction, management and related services to, real estate and real estate-related assets in which the Clients do not have an ownership interest. Certain conflicts of interest may result from such investments and activities. Affiliates of Lionheart may invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of the Clients for their own account own account and/or for the account of other vehicles under the management of the Firm. The interests of Lionheart and its affiliates in such investments may conflict with the interests of the Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Lionheart and its affiliates may invest in real estate and real estate-related assets that may be competitive with the Clients or the properties securing or otherwise relating to the Clients' investments. In addition, affiliates of the Firm may provide services to properties that compete with the properties securing or otherwise relating to the Clients' investments. To the extent that Lionheart or any of its affiliates invest in or provide services to competitive properties, such properties may impair the performance of the Clients' investments.

**Management Team.** Certain members of Lionheart's management team expect to have conflicts in allocating their time and services among the Clients and other ventures. Thus, while it is anticipated that

these members will devote as much time to the Clients as Lionheart deems appropriate, certain members may have to devote a substantial amount of time to matters other than the Clients, some of which may conflict with the interests of the Clients.

**Independent Business Operations.** Lionheart will be managed separately and independently from the existing business operations of Fisher Brothers. Although Lionheart intends to enter into services arrangements with certain Fisher Brothers-owned service providers, the Firm will be an independent business operation and, accordingly, will not necessarily benefit from Fisher Brothers' existing operations and expertise.

## **ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an investor's evaluation of Lionheart or the integrity of Lionheart's management. Lionheart has no information to report with respect to this Item.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. Broker-Dealer Registration Status**

Neither Lionheart nor any of its management persons are registered, or have an application pending to register, as broker-dealers or registered representatives of a broker-dealer.

### **B. CFTC Registration Status**

Neither Lionheart nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **C. Industry Relationships Material to Advisory Business**

#### **Private Funds**

Investors in LMCI must understand that LMCI was formed as a pooled investment vehicle to be managed by Lionheart, and that Lionheart does not intend to cause LMCI to terminate its investment management relationship with Lionheart absent Lionheart's liquidation or bankruptcy. However, Lionheart has a fiduciary duty to act in the best interest of LMCI. In addition, LMCI investors generally are not permitted to withdraw from LMCI prior to its dissolution.

#### **Real Estate Firm**

Although affiliated with Fisher Brothers, Lionheart is governed by a majority independent board of directors, operates independently of Fisher Brothers and conducts its investment advisory business separately from the business of Fisher Brothers. Fisher Brothers has entered into a Master Services Agreement with Lionheart pursuant to which Fisher Brothers, on a monthly fee for services basis, will provide services to Lionheart including origination, due diligence, financial analysis and structuring as well

as transaction execution assistance. The Master Services Agreement is effected on terms comparable to those that could be obtained in an arm's-length agreement between unrelated counterparties.

Lionheart does not intend to make any material investments in any properties owned or controlled by Fisher Brothers. Nonetheless, affiliates of Lionheart (including various Fisher Brothers entities) have investments in, and provide development, construction, management and related services to, real estate and real estate-related assets in which the Clients do not have an ownership interest. Certain conflicts of interest may result from such investments and activities. Affiliates of Lionheart may invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of the Clients for their own accounts and/or for the accounts of other vehicles under the management of Lionheart. The interests of Lionheart and its affiliates in such investments may conflict with the interests of the Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Affiliates may invest in real estate and real estate-related assets that may be competitive with the Clients or the properties securing or otherwise relating to the Clients' investments. In addition, affiliates of Lionheart may provide services to properties that compete with the properties securing or otherwise relating to the Clients' investments. To the extent that Lionheart or any of its affiliates invest in or provide services to competitive properties, such properties may impair the performance of the Clients' investments.

A related person of the Firm, Fisher Brothers Management Company LLC ("FBMC") is a real estate broker licensed in New York State. Clients, through Lionheart, receive services relating to back office (including IT and human resources), development, construction and leasing. Lionheart, and not the Clients, pays a quarterly fee to FBMC for such services.

#### **D. Material Conflicts of Interest Relating to Other Advisers**

Lionheart does not recommend or select other investment advisers for the Clients.

### **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

#### **A. Code of Ethics**

Lionheart has adopted a Code of Ethics (the "Code"), the fundamental principles of which are that: (i) the interests of the Clients must always come first; (ii) supervised persons of Lionheart must not take inappropriate advantage of their positions; and (iii) both actual and potential conflicts of interest must be identified and resolved in favor of the Client or, if appropriate, disclosed to them. Among other things, the Code:

- Requires employees to comply with applicable provisions of the federal securities laws;
- Requires approval before effecting certain purchases and sales of securities;
- Prohibits certain recommendations of purchases or sales to or for a Client;
- Requires employees to report personal securities transactions and accounts on at least a quarterly basis and securities holdings on commencement of employment and annually thereafter;
- Establishes rules relating to business-related gifts/entertainment, political contributions and outside business activities; and
- Provides for the imposition of certain sanctions against supervised persons who violate the Code.

A copy of the Code shall be provided to any investor or prospective investor upon request.

**B. Securities in which the Firm or Related Persons have Financial Interest**

Neither Lionheart nor any related person recommends to the Clients, or buys or sells for the Clients' portfolios, securities in which Lionheart or a related person has a material financial interest.

**C. Securities in which the Firm or Related Persons Invest**

Neither Lionheart nor any related person invests in the same or related securities that Lionheart or a related person recommends to the Clients.

**D. Securities which the Firm or Related Persons Recommend to Clients**

Neither Lionheart nor any related person recommends securities to the Clients, or buys or sells securities for the Clients' portfolios, at or about the same time that Lionheart or a related person buys or sells the same securities for its own or a related person's own account.

**ITEM 12 – BROKERAGE PRACTICES**

**A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

Due to the nature of its strategy, Lionheart does not generally trade in public securities on behalf of the Clients and, therefore, does not generally utilize broker-dealers for transactions.

**B. Aggregated or "Bunched" Orders**

In the context of Lionheart's business, the aggregation of the purchase or sale of securities for multiple Client accounts is generally not relevant, and as such, this item is not applicable.

**ITEM 13 – REVIEW OF ACCOUNTS**

**A. Review of Client Accounts**

Lionheart's investment professionals, including the Firm's Chief Compliance Officer and Managing Directors, review the portfolios of the Clients on a regular and ongoing basis, specifically regarding the nature of the portfolios' construction and for adherence to the objectives and restrictions set forth in the Clients' Governing Documents.

**B. Factors that May Trigger a Review of Client Accounts**

Clients' portfolios are reviewed on a periodic basis in accordance with the Governing Documents of such Clients.

**C. Content and Frequency of Reports**

Lionheart provides investors with periodic, written reports in accordance with the terms of the Clients' Governing Documents. Reports for LMCI are typically provided to investors on a quarterly basis, within 60 days after quarter-end. LMCI investors also receive annual audited financial statements as described in Item 15 below and their respective annual tax reports from Lionheart. In general, these reports include the balance sheet, income statement and statement of cash flows for LMCI, the investor's capital account statement, a status report of investments and activities during the quarter, and a schedule regarding fees received by Lionheart for its advisory services to LMCI. Lionheart may make the reports available in hardcopy or solely via electronic transmission or in electronic form on its website unless otherwise requested by a LMCI investor. Lionheart, in its discretion, may provide more frequent reports and/or more detailed information to any of the investors in LMCI or LRECS.

#### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

##### **A. Economic Benefit for Providing Services to Non-Clients**

No one other than the Clients provides an economic benefit to Lionheart for providing investment advice or other advisory services to the Clients.

##### **B. Compensation to Non-Supervised Persons for Client Referrals**

Neither Lionheart nor of any of its related persons compensate any person who is not a supervised person of Lionheart for advisory client referrals.

#### **ITEM 15 - CUSTODY**

Lionheart is deemed to have custody of the funds and securities of the Clients, but the Firm does not maintain physical custody of such assets. All funds and securities of the Clients are held at accounts maintained in the Clients' names with "qualified custodians" within the meaning of the applicable rules under the Advisers Act.

Investors in LMCI will not receive quarterly account statements from the qualified custodians. Instead, on an annual basis within 120 days of LMCI's fiscal year end, investors in LMCI receive financial statements, prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent accountant recognized by the Public Company Accounting Oversight Board ("PCAOB").

Investors in LRECS will receive quarterly account statements from the qualified custodians. Additionally, on an annual basis, but irregular from year to year, LRECS will undergo a surprise examination by an independent public accountant to verify its custodied assets. Among other things, any material discrepancies found by the accountant must be reported to the SEC within one day.

Lionheart does not maintain custody of the funds and securities of any Separate Account.

#### **ITEM 16 – INVESTMENT DISCRETION**

Pursuant to the Governing Documents of LMCI, Lionheart has been delegated discretionary authority over investment acquisition, disposition and overall management of LMCI, subject to the limitations and restrictions expressly set forth in such Governing Documents. Lionheart provides non-discretionary advisory and management services to LRECS, the terms of which are set forth in LRECS's Governing Documents. Lionheart provides administrative services to the Separate Accounts, which do not include discretionary or non-discretionary advisory and management services.

## **ITEM 17 – VOTING CLIENT SECURITIES**

### **A. Client Security Voting Policy**

Lionheart's investment strategy does not generally involve the acquisition of public securities with voting authority, so it is unlikely that the Clients or Lionheart will be placed in a position of proxy voting authority. However, instances in which a proxy vote is available will be evaluated on a case-by-case basis.

Lionheart's proxy voting policies and procedures and a summary of how Lionheart has voted any proxies shall be made available on request to investors free of charge and can be obtained by contacting the Firm.

### **B. Authority to Vote Client Securities**

Lionheart accepts and maintains the authority to vote client securities where applicable. As described above, given the nature of Lionheart's business voting client securities is generally not relevant.

## **ITEM 18 – FINANCIAL INFORMATION**

- A.** Lionheart does not require or solicit prepayment of more than \$1,200 in fees from any Client six months or more in advance.
- B.** Lionheart does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to the Clients.
- C.** Lionheart has not been the subject of a bankruptcy petition at any time during the past ten years.