

**Item 1: Cover Page**



**Form ADV Part 2A**

**March 31, 2023**

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**This brochure provides information about the qualifications and business practices of Torchlight Investors, LLC. If you have any questions about the contents of this brochure, please contact us at 212-883-2800. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the "SEC") or by any state securities authority. Additional information about Torchlight Investors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level or skill or training.**

**Item 2: Material Changes**

Torchlight Investors, LLC, (“Torchlight”) routinely makes changes throughout its Brochure to improve and clarify the descriptions of its and its affiliates’ business practices and compliance policies and procedures or in response to evolving industry and firm practices. Torchlight does not believe that the changes it has made since its prior year’s Brochure are material and does not describe them in this Item 2. Torchlight recommends reading this Brochure in its entirety.

### Item 3: Table of Contents

Item	Page
Item 1: Cover Page .....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	4
Item 6: Performance Based Fees and Side by Side Management .....	10
Item 7: Types of Clients.....	12
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	12
Item 9: Disciplinary Information .....	19
Item 10: Other Financial Industry Activities and Affiliations .....	19
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	21
Item 12: Brokerage Practices .....	22
Item 13: Review of Accounts .....	22
Item 14: Client Referrals and Other Compensation.....	23
Item 15: Custody .....	23
Item 16: Investment Discretion .....	23
Item 17: Voting Client Securities.....	24
Item 18: Financial Information .....	24

#### **Item 4: Advisory Business**

Torchlight Investors, LLC (“Torchlight”) is registered as an investment adviser with the SEC. Together with its affiliates, Torchlight has 59 employees and a seasoned management team that averages over 25 years of experience. Torchlight has been managing commercial real estate related investments (predominately debt investments) for institutional clients since 1995.

Torchlight is a wholly-owned subsidiary of Torchlight Holdings, LLC, a holding company owned directly or indirectly by Torchlight employees. Daniel Heflin, the Co-Chief Executive Officer and Co-Chief Investment Officer of Torchlight, indirectly owns more than 25% of Torchlight. No individual, other than Mr. Heflin, beneficially owns 25% or more of Torchlight.

Torchlight provides discretionary investment management and advisory services to institutional investors relating primarily to commercial real estate related investments (with a focus on debt instruments), including but not limited to, commercial mortgage-backed securities (“CMBS”), commercial real estate loans, and subordinated interests including mezzanine investments, preferred equity and equity.

Torchlight provides discretionary investment advice primarily through private investment funds sponsored by Torchlight (“Torchlight Funds”). Torchlight provides discretionary advisory services to each Torchlight Fund pursuant to written agreements (such as limited partnership agreements, investment management agreements and side letters) that specify the terms of the engagement, such as investment objectives, investment restrictions, compensation and termination (in each case, the “Governing Agreements”). In providing these services, Torchlight determines when and which investments will be acquired or disposed of on behalf of its clients so as to maintain a portfolio consistent with the objectives and policies of each client, based upon Torchlight’s assessment of investment and divestment opportunities available at the particular time. Torchlight provides advisory services directly to the Torchlight Funds, based on the strategy of the particular Torchlight Fund, and not individually to the investors in the Torchlight Funds.

Historically Torchlight has provided discretionary advice with respect to separate accounts of institutional clients but does not manage any separate accounts at present. Discussions herein regarding fees and compensation, conflicts of interest, investment strategies, risk of loss, brokerage practices, review of accounts, and voting of client securities generally refer to Torchlight Funds but are applicable to clients that engage Torchlight to manage separate accounts.

Torchlight provides non-discretionary services as collateral manager to two “CDOs” (i.e., issuers of collateralized debt obligations). Services rendered by Torchlight to CDOs consist of monitoring securities held by the CDOs, consulting with and preparing reports for the trustees of the CDOs and rating agencies and disposing of defaulted securities held by the CDOs.

Torchlight managed \$5,678,345,630 on a discretionary basis and \$7,106,379 on a non-discretionary basis as of December 31, 2022.

#### **Item 5: Fees and Compensation**

##### **Investment Management Fees**

Torchlight is compensated for advisory services by each Torchlight Fund at the fee rates specified in the relevant Governing Agreements. The amount, timing and other terms relating to compensation are often negotiated by Torchlight with investors in Torchlight Funds and may vary significantly among Torchlight

Funds and investors in a Torchlight Fund. Torchlight charges fixed rate management fees for its investment management services at an annual fee of up to 1.5% of assets under management or committed capital. Fees are payable by the Torchlight Fund on a quarterly or monthly basis in advance or in arrears. Torchlight (or an affiliate serving as general partner of a Torchlight Fund) also is entitled to receive performance fees under the terms specified in the relevant Governing Agreements. Performance fees are described in Item 6. Torchlight receives monthly collateral management fees from CDOs at the rates of 0.0125% to 0.1666% (0.15% to .20% per annum) of assets held by the CDO at the end of the prior month.

### **Special Servicing**

Torchlight Loan Services, LLC (“TLS”), a wholly-owned subsidiary of Torchlight, performs loan work-out services as a “special servicer”. In its capacity as a special servicer, TLS is responsible for resolving delinquent and defaulted commercial real estate mortgage loans which are held by trusts that issue CMBS. In a CMBS trust, investors acquire certificates that are issued in classes or tranches that rank from most subordinate to most senior. Losses incurred by the trust on underlying mortgage loans are allocated to the most subordinate class outstanding (referred to as the “controlling class”). The principal amount of the subordinate class is reduced by losses allocated to that class. If the principal amount of the subordinate class is reduced to zero, subsequent losses are allocated to the next most subordinate class. The holder of the controlling class is typically afforded the right under the applicable Pooling and Servicing Agreement (“PSA”) (the contract that governs the CMBS trust) to appoint the special servicer of the CMBS trust, since the holder of the controlling class bears the immediate risk of loss. As part of their investment strategy, Torchlight Funds (in particular, the Debt Fund series) will acquire the subordinate (or controlling) class of CMBS trusts. In those circumstances, Torchlight will appoint TLS as special servicer on behalf of the Torchlight Fund. (In certain instances, the PSA does not permit the holder of the controlling class to appoint an affiliate as special servicer, and Torchlight will appoint TLS as the “Directing Certificateholder Servicing Consultant” to perform certain functions that are typically performed by a special servicer). Torchlight believes that it is in the Torchlight Fund’s best interest to appoint TLS as special servicer, as this enables Torchlight to control the workout process and thereby maximize the trust’s (and indirectly the Torchlight Fund’s) recovery on distressed loans.

Torchlight encounters various conflicts of interest as a result of appointing TLS to act as special servicer on behalf of Torchlight Funds. Torchlight indirectly earns additional compensation when Torchlight appoints TLS as special servicer of a trust, thereby enabling TLS to earn special servicing fees from the trust. Consequently, Torchlight faces a conflict of interest in determining whether to acquire CMBS in Torchlight Funds that carry the immediate right to appoint a special servicer or have the potential to acquire such right in the future (due to losses incurred by more subordinate classes), as Torchlight has a financial incentive to facilitate such appointments in order to earn additional fees. Torchlight faces a similar conflict of interest in determining whether to sell such CMBS positions owned by Torchlight Funds, as such a sale could result in termination of TLS as special servicer. Torchlight seeks to make determinations as to whether to buy or sell such CMBS positions by taking into account the best interests of the Torchlight Fund without regard to the potential impact upon special servicing revenues of TLS.

As special servicer, TLS is entitled to receive certain fees that are specified in the governing PSA (including periodic fees that are a percentage of the principal amount of loans in special servicing and liquidation fees that are earned a percentage of the proceeds derived from the disposition of a loan or other asset by the special servicer) as well as certain fees the amount of which can be negotiated by the special servicer with the borrower on a case-by-case basis (such as a forbearance fee for granting a borrower additional time to achieve a milestone specified in a loan agreement). While PSAs permit the special

servicer to negotiate fees to be paid by borrowers, PSAs do not specify how such fees are to be calculated and, because they are payable by the borrower, they are payable without regard to priorities specified in the PSA. More recent PSAs do require that “work-out” fees otherwise payable under the PSA be offset by borrower-paid fees, and some PSAs cap the amount of borrower-paid fees. Torchlight faces a conflict of interest in negotiating borrower-paid fees, since greater fees will result in greater revenue to TLS but could, potentially, reduce the amount that would otherwise be paid by the borrower to the CMBS trust (and, ultimately, to the Torchlight Fund). TLS endeavours to negotiate borrower-paid fees that are consistent with prevailing market practice and within the range of prevailing market rates, as determined by Torchlight in good faith. However, there can be no assurance the fees charged by TLS in any given workout do not exceed fees that would be charged by another special servicer as special servicers generally do not publish the amount or calculation of borrower-paid fees they charge. In addition, the comparison of fees is inherently subjective as the facts surrounding workouts and borrowers can vary significantly.

In recent years it has become a common practice for special servicers to agree to share special servicing fees with unaffiliated holders of controlling classes as a condition to being appointed special servicer. TLS has entered into several such agreements with unaffiliated third parties. This practice has given rise to a conflict of interest for Torchlight when a Torchlight Fund acquires the controlling class of a CMBS issuer, as Torchlight could negotiate a fee sharing arrangement on behalf of the Torchlight Fund with an unaffiliated special servicer or with TLS pursuant to which the special servicer would share special servicing fees with the Torchlight Fund. However, Torchlight does not enter into fee sharing arrangements on behalf of Torchlight Funds with unaffiliated third parties or with TLS, even though amounts received from such arrangements could be material in relation to the returns Torchlight Funds earn on the related CMBS. Instead, Torchlight will appoint TLS and TLS will retain the full amount of special servicing fees. It is not possible to accurately predict how much TLS will earn in special servicing fees from any particular CMBS transaction, as the amount of fees will depend on numerous factors related to the particular loans in the transaction (such as the terms of the loan agreements, the characteristics of the collateral underlying the loans, and characteristics of the borrowers) as well as the economic conditions that prevail locally and nationally. Torchlight discloses to the Limited Partner Advisory Committee of each Debt Fund on an annual basis the amount of special servicing fees that TLS has earned from CMBS transactions in which Torchlight has appointed TLS as special servicer on behalf of the Torchlight Fund.

The investment strategy of Torchlight Funds includes purchasing the controlling class of a CMBS trust at initial issuance. In any such case, Torchlight will have some ability to negotiate certain terms in the governing PSA with the CMBS sponsor, including the fee schedule that will determine the fees payable by the trust to the special servicer (which is expected to be TLS). Accordingly, Torchlight faces a conflict of interest in negotiating special servicing fees, since higher fee rates will likely result in greater revenue to TLS but if so will, in some instances, also reduce the amount that is ultimately distributed by the issuer to the Torchlight Fund. When negotiating a PSA, Torchlight endeavours to negotiate special servicing fees that are within the range of prevailing rates for recent CMBS issuances as specified in PSAs, but Torchlight does not attempt to negotiate fees at the bottom or low end of the market. In certain such PSAs in which the holder of the controlling class is not permitted to appoint an affiliate as special servicer, TLS is designated by the controlling class as the “Directing Certificateholder Servicing Consultant”. TLS’ role in that capacity is to review and evaluate from the standpoint of the controlling class certain actions proposed to be taken by the master servicer from time to time with respect to performing loans (such as a request to allow a borrower to substitute collateral for the loan) and to determine whether to consent to the action on behalf of the controlling class. The borrower will typically pay a fee in connection with such actions and TLS will be paid a percentage of the fee (as specified in the PSA). The fees paid to TLS for

performing this function are commensurate with fees paid to special servicers in other PSAs for performing a similar function.

TLS may continue from time to time to act as special servicer to, and to earn fees from, CMBS trusts after the Torchlight Fund that facilitated the appointment has disposed of its investment in the issuer. Conversely, there is no restriction on Torchlight's ability to sell all or a portion of the equity interests in TLS, or to enter into a joint venture or other transaction in which Torchlight will receive compensation (directly or indirectly) from a third party in exchange for the third party acquiring an economic interest in TLS. The amount of compensation that Torchlight would receive from such a sale or other transaction would likely correlate directly with TLS' projected, future revenue, a substantial portion of which would be from CMBS trusts for which Torchlight Funds hold the controlling class and have the authority to appoint the special servicer. In such a sale, Torchlight could give assurances to a third party on behalf of its clients that the clients will not remove TLS as special servicer following such a transaction provided that the special servicer continues to perform its responsibilities in accordance with industry standards.

Torchlight should be considered as earning additional advisory compensation when TLS earns special servicing fees or Directing Certificateholder Servicing Consultant fees from a trust in which a Torchlight Fund owns the controlling class.

#### **Other Expenses of Clients**

Each Torchlight Fund is responsible for the costs and expenses of its operations, as outlined in the relevant Governing Agreements ("Operating Expenses"). While the types of Operating Expenses incurred by Torchlight Funds will vary, Operating Expenses will generally include all costs and expenses attributable or allocable to the activities and operation of the Torchlight Fund (whether incurred by the Torchlight Fund or by Torchlight or its Affiliates), including, without limitation:

(i) the costs and expenses of researching, identifying, acquiring, holding, monitoring, managing and disposing of investments, whether or not the particular transaction is consummated (including as applicable broken-deal expenses relating to potential co-investments that may have been borne in part by co-investors if the particular transaction had been consummated) including, without limitation:

(A) research expense, whether or not related to a specific investment opportunity, including, without limitation, software and database expenses (including the cost of consultants to assist with, maintaining and upgrading the foregoing), subscription and license fees and other expenses in connection with information and data services providing market data, news feeds, property, company and industry information, risk and analytics, quotations, statistics and pricing services (including, without limitation, Bloomberg and similar services), the cost of due diligence and portfolio, investment and asset management, site visits, and expenses related to attending trade association meetings or conferences or meetings with real estate brokers or sponsors for purposes of sourcing (or developing sources of) potential investment or disposition opportunities;

(B) fees, expense reimbursements and commissions paid to attorneys, accountants, consultants, agents, finders, due diligence and other service providers relating to the investigation, preliminary screening, valuation, credit analysis, structuring, negotiating, financing, acquiring, owning, managing, monitoring, insuring, operating, restructuring, refinancing, selling, liquidating, or otherwise disposing of investments and potential investments, as applicable; and

(C) travel expense (including, without limitation, transportation, meals, lodging and entertainment) incurred by Torchlight or its affiliates or third parties in connection with any of the foregoing.

(ii) Costs and expenses related to the administration and operation of the Torchlight Fund, including:

(A) management fees;

(B) fees and expenses of custodians and trustees, administrators, pricing agents, consultants, attorneys, accountants, auditors and tax return preparers (including costs incurred in coordinating, reviewing and supervising the foregoing), the cost of acquiring, implementing, maintaining and upgrading accounting systems, software, and costs incurred in creating, storing and maintaining the books and records of the Torchlight Fund (electronic and physical);

(C) the cost of purchasing, licensing, implementing, maintaining and upgrading computer software and hardware, IT systems, electronic storage and databases, infrastructure, networks and environment, and cybersecurity and cybersecurity insurance coverage (including the cost of consultants to assist with all of the foregoing);

(D) expenses related to preparation and dissemination of financial statements, tax estimates, tax returns, and Schedule K-1's and reports to limited partners, legal and accounting fees incurred in preparing and reviewing such reports, financial statements and communications, the costs of purchasing, implementing, maintaining and upgrading computer systems, software and hardware for use in preparing and distributing such reports and financial statements and communications, and subscription fees and expenses related to the use of web portals and intranet tools and other services used in electronically disseminating such reports, financial statements and other communications;

(E) all out-of-pocket fees and expenses incurred by the Torchlight Fund, Torchlight, or its affiliates and attendees in connection with (i) the annual meetings of the limited partners and any other conference or meeting with any limited partner(s), including set-up costs, event planner fees, audio visual equipment rentals, event and outing costs provided in connection with such meetings, and all related charges of hotel or other conference facilities, the cost of meals and entertainment (including outside speakers), local transportation for limited partners, and the purchase or production of materials distributed and legal and accounting expense incurred in connection with reviewing or preparing the foregoing, and (ii) meetings of the Advisory Committee, including reasonable travel expense of members of the Torchlight Fund's Advisory Committee and observers, as well as fees of any service providers retained to advise the Advisory Committee on matters reasonably related to the affairs of the Torchlight Fund, and expense incurred in preparing materials for the Advisory Committee (including legal and accounting expense in preparing or reviewing such materials);

(F) expenses related to the most favoured nation election process and legal and other costs incurred in complying with side letter provisions, such as costs incurred in developing and implementing policies and procedures to comply with investment policies of specific limited partners;

(G) insurance, including, without limitation, directors' and officers' liability insurance (including liability insurance covering members of the Advisory Committee and Observers), errors



and omissions liability insurance, coverage against crime, liability insurance covering the Torchlight Fund and tail insurance with respect to the foregoing, the cost of deductibles and fees of insurance consultants and advisors utilized in the procurement, review and analysis of insurance policies;

(H) costs incurred in connection with investigating, defending or prosecuting any actual, threatened or otherwise anticipated litigation or governmental inquiry, investigation or proceeding relating to the activities of the Torchlight Fund or an investment of the fund, including any costs of discovery, the fees of attorneys, accountants and experts, and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts are excluded from indemnification under the Governing Documents of the Torchlight Fund;

(I) any taxes, fees or other governmental charges levied against or incurred by the Torchlight Fund (unless otherwise allocated to specific investors under the Governing Documents of the Torchlight Fund);

(J) amounts payable to purchasers, agents, lenders or other persons in connection with establishing and maintaining any subscription facility or other credit facilities or structured financings or recapitalization arrangements entered into (or proposed to be entered into) by the Torchlight Fund, including, but not limited to, interest expense, commitment and renewal fees, legal fees, accounting fees, rating agency fees, custodial fees, and underwriting fees relating to the placement of debt;

(K) the costs of compliance with any financial account reporting regime, including FATCA, the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard, and any similar rules and regulations, and any fees of service providers related to the foregoing;

(L) the cost of SEC and CFTC regulatory compliance attributable to the Torchlight Fund, and expenses associated with the Torchlight Fund's compliance with any other law, regulation, policy or directive, including in relation to privacy, data protection, know-your-customer, and anti-money laundering;

(M) fees for special servicing and similar services payable from or with respect to Torchlight Fund investments or by the Torchlight Fund in its capacity as a directing certificateholder (or similar capacity); and

(N) fees, costs and expenses incurred in connection with dissolving, liquidating, winding-up and terminating the Torchlight Fund.

Operating Expenses do not include compensation of Torchlight employees (as opposed to consultants) and routine overhead expenses of Torchlight (such as rent and utilities). Torchlight Funds reimburse Torchlight and its affiliates for any Operating Expenses they incur on behalf of Torchlight Funds.

Brokerage and transaction-related costs are explained in greater detail in Item 12.

### **Appointment of Service Providers**

Torchlight is responsible for appointing service providers for Torchlight Funds and for negotiating the fees to be paid by Torchlight Funds for such services. Torchlight engages consultants on behalf of Torchlight

Funds to provide services the cost of which will constitute Operating Expenses. Such consultants may be engaged on a temporary or long-term basis, and on an exclusive or non-exclusive basis, and in certain instances such consultants may work from Torchlight offices. Services provided by such consultants may include, without limitation, due diligence or asset management services, provided that consultants are not engaged to provide investment advice to Torchlight Funds.

Torchlight incurs costs and expenses on behalf of more than one Torchlight Fund, and on behalf of Torchlight and one or more Torchlight Funds. In such cases, Torchlight will allocate a portion of such costs or expenses among each Torchlight Fund and Torchlight (as applicable) based upon the benefit each is deemed to derive from the cost or expense. Torchlight has adopted policies Torchlight believes are reasonable for determining the benefit that Torchlight Funds and Torchlight (as applicable) derive from different costs and expenses and which form the basis for allocating the cost or expense among the Torchlight Funds and Torchlight (as applicable). For example, Torchlight allocates the cost of data aggregator licenses held by private acquisitions personnel to each relevant Torchlight Fund in its investment period; Torchlight allocates the cost of data aggregation licenses held by asset management personnel in proportion to the total assets of each relevant Torchlight Fund; and Torchlight allocates the cost of such licenses held by TLS personnel to Torchlight. Torchlight allocates the cost of consultants providing investment due diligence services to the investment transaction to which the services relate (see Item 6 for a discussion on how costs related to investment opportunities not consummated are allocated) while Torchlight allocates the cost of rating agency data feeds (that provide traders with ratings on CMBS) among Torchlight Funds (and Torchlight, if applicable) based on the fair value of CMBS assets held by each Torchlight Fund (and Torchlight, if applicable).

Torchlight engages certain service providers to provide services to one or more Torchlight Funds as well as to Torchlight or its affiliates. For example, Torchlight has engaged Metsch & Metsch LLP to provide legal and compliance services to Torchlight and Torchlight Funds. Pursuant to Torchlight's engagement of Metsch & Metsch LLP, Richard Metsch, a partner of Metsch & Metsch, acts as chief compliance officer of Torchlight (a position he has held since December 2014). Through Metsch & Metsch, Richard Metsch also provides legal services to Torchlight and the Torchlight Funds. This raises certain conflicts of interest that are discussed in Item 10.

Torchlight may appoint third parties or its affiliates to provide services to Torchlight Funds (subject in each case to the Governing Agreements of the Torchlight Fund). While Torchlight is authorized to appoint affiliates to provide services to Torchlight Funds, Torchlight has no present intention to appoint affiliates to provide services to Torchlight Funds.

#### **Item 6: Performance Based Fees and Side by Side Management**

Torchlight and its affiliates may receive performance-based compensation (i.e., carried interest distributions or performance fees). In most Torchlight Funds, a percentage of amounts otherwise distributable to an investor (typically 20%), after the investor has received cumulative distributions equal to its cumulative capital contributions, will be distributed as carried interest to an affiliate of Torchlight (in its capacity as the general partner or managing member of the Torchlight Fund). Carried interest distributions may be subject to certain preferred return hurdles and catch-up allocations. The manner of calculating carried interest is specified in the Governing Agreements of the Torchlight Fund. Torchlight may sponsor funds in the future, or enter into agreements for separately managed accounts, that pay performance fees as a percentage of increases in net asset value (i.e., based upon both realized and unrealized appreciation and depreciation). Torchlight does not receive performance fees from CDOs.

The Governing Agreements of the Torchlight Funds generally require that the general partner or managing member return excess carried interest distributions at the end of the term of the Torchlight Fund if the general partner or managing member has received with respect to any investor carried interest distributions in excess of amount that would be due if all distributions and contributions over the life of the Torchlight Fund were taken into account in the aggregate. However, because the obligation to return carried interest is typically reduced by taxes payable on the excess carried interest, investors may ultimately receive a smaller percentage of distributions made by the fund than would have been the case if taxes were not taken into account.

Performance-based compensation may create an incentive for Torchlight to make investments that are riskier or more speculative than would be the case absent such an arrangement. Performance-based compensation may also create an incentive for Torchlight to allocate investment opportunities to Torchlight Funds that pay carried interest at a higher rate than other Torchlight Funds, or to Torchlight Funds that do not have to recover prior losses before distributing carried interest. Torchlight has adopted and implemented policies and procedures designed to mitigate these conflicts. Such procedures are designed to seek the fair and equitable allocation of investment opportunities among Torchlight Funds over time.

Pursuant to the Torchlight investment allocation policy, investment opportunities that are appropriate for more than one Torchlight Fund and that Torchlight determines would present a potential for conflict of interest between funds if they were to co-invest (primarily investments that entail present or potential control rights, such as privately negotiated investments or subordinate classes of CMBS) (“Rotated Opportunities”) are generally rotated between Torchlight Funds for which the investment would be appropriate, and investment opportunities that Torchlight determines do not present a potential for a conflict of interest, such as more senior classes of CMBS, are allocated between funds for which the investment would be appropriate. The foregoing is a general rule, and whether an investment opportunity is allocated to a Torchlight Fund, and the amount allocated, in any specific instance will be subject to various considerations such as the amount of capital available to each fund for which the investment would be appropriate, the amount of time remaining in each fund’s investment period, the amount of time remaining in the term of each fund, the return profiles of each fund, and the impact of the investment on the diversification of each fund’s portfolio. At present, the need to rotate Rotated Opportunities only arises when the investment periods of two funds in the Torchlight Debt Fund series overlap.

Torchlight will incur expense in investigating, evaluating and underwriting potential Rotated Opportunities without necessarily knowing at the time the expense is incurred which Torchlight Fund the investment will be allocated to (if it is consummated). This is because Torchlight is typically evaluating a number of potential Rotated Opportunities at any one time and may not be able to identify which fund is next in the rotation prior to the time that Torchlight makes a firm commitment to the investment. If Torchlight decides not to pursue a potential Rotated Opportunity before Torchlight has allocated the opportunity to a Torchlight Fund, the related broken-deal expenses will be divided evenly between the Torchlight Funds to which the opportunity could have been allocated. If Torchlight decides not to pursue a potential Rotated Opportunity after the investment has been allocated to a single Torchlight Fund, the related broken-deal expenses will be allocated to the Torchlight Fund to which the opportunity had been allocated. Under Torchlight’s investment allocation policy, Rotated Investments are allocated at or before the time Torchlight makes a firm commitment to pursue the investment.

Investment opportunities that do not present potential for a material conflict of interest (such as investment grade CMBS) will generally be allocated evenly between Torchlight Funds, subject to considerations specific to each fund, such as diversification and available capital.

#### **Item 7: Types of Clients**

Torchlight provides advisory services primarily to closed-ended, private investment funds that are exempt from registration under the Investment Company Act of 1940 (the “1940 Act”) and the Securities Act of 1933 (the “Securities Act”). The great majority of investors in Torchlight Funds are institutional, including public and private pension plans, insurance companies, multi-national organizations, foundations and other charitable organizations, and business organizations. The minimum capital commitment for an investor in a Torchlight Fund is typically \$10 million (which Torchlight may waive at its discretion). In general, an investor in a Torchlight Fund is required to be both an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified purchaser” as defined in the 1940 Act.

Historically Torchlight also has managed separate accounts for institutional investors but does not manage separate accounts at the present time. The minimum size for a separate account will be negotiated on a case-by-case basis, but Torchlight typically requires a commitment from the client of \$20 million to \$100 million depending upon the strategy for the account. As noted above, discussions herein regarding fees and compensation, conflicts of interest, investment strategies, risk of loss, brokerage practices, review of accounts, and voting of client securities generally refer to Torchlight Funds but are applicable to clients that engage Torchlight to manage separate accounts.

Torchlight provides collateral management services to two CDOs.

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

Torchlight’s analysis of investment opportunities includes both fundamental and technical analysis. Fundamental analysis generally involves evaluating an investment opportunity based on a measured analysis of the investment target’s assets, cash flows and other criteria. Technical analysis generally involves considering the markets more broadly. Torchlight relies on analyses and reports and information produced both internally and by third parties. Torchlight relies upon third party data sources to provide broad, comprehensive coverage of local submarket data (e.g., Costar Group, S&P Global Market Intelligence) and recognized industry data aggregator services (e.g. Argus, Trepp, Real Capital Analytics, Bloomberg). Independent third-party property reports are also an essential component of the due diligence process. By example, Torchlight engages third parties such as Coface for credit and background reports for borrowers, property appraisals, Property Solutions for property condition assessments and IVI Assessment Services for environmental site assessments.

Types of investment strategies utilized include the purchase, sale, structuring and origination of commercial real estate related investments including CMBS, senior mortgage loans, subordinate mortgage loans, mezzanine loans secured by entities that own commercial real estate, preferred equity and equity interests in commercial real estate and REIT equities. Torchlight also utilizes long and short-term purchases of various types of investment products such as structured debt instruments of various credit quality, including CDOs, interest rate swaps, synthetic securities (e.g., credit default swaps, total rate of return swaps, etc.) and margin transactions. Certain Torchlight Funds employ investment strategies that involve the use of leverage, short selling, hedging instruments and derivative instruments, such as CMBX.

Torchlight strategies entail substantial risk of loss, and potential investors in Torchlight Funds should be prepared to lose all or a substantial portion of their capital investment in a Torchlight strategy. Investing in the instruments and strategies employed by Torchlight involves general real estate market risks, interest rate and hedging risks, risk of extensions or prepayments on the underlying loans, risks of investing in subordinate debt instruments (or lower credit quality debt instruments), mezzanine loans and equity in commercial real estate, risk of use of leverage, derivative and counterparty risks, and valuation risks. Disclosures of specific risk factors are presented to prospective investors in Torchlight Funds in offering memoranda, prospectuses, or similar documents. Set forth below are summaries of some, but not all, risks associated with Torchlight investment strategies.

#### *Public Health Emergencies; COVID-19.*

The outbreak of COVID-19 and efforts to contain its spread have resulted in, among other things, significant volatility in global markets, significant disruptions to business operations in various industries and the imposition of significant travel restrictions. The impact of the pandemic on U.S. commercial real estate has varied by sector, with the retail and hospitality sectors initially suffering dramatic decreases in occupancy while the multi-family and office sectors remained relatively stable. The pandemic has accelerated the trend of businesses to allow personnel to work remotely, and this trend may have a long-term negative impact on the office sector, particularly for older high-rise office buildings in large U.S. cities. Vaccines have shown the potential to alleviate the pandemic, but the extent to which the vaccines will ultimately prove successful in combating the pandemic, and the timing of any success, cannot be determined. The COVID-19 pandemic and its effects are expected to continue for an extended period of time, and such effects have been and will be unevenly distributed across different sectors of the economy and different sectors of the U.S. commercial real estate market. The impact of COVID-19 (or any future pandemic, epidemic or other similar outbreak of a contagious disease) is difficult to predict and may have a negative and long-lasting impact on the performance of a Torchlight Fund.

#### *General Real Estate Market Risks*

Real estate, like many other types of 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 investments managed by Torchlight. The cash flow and value of the investments managed by Torchlight will depend on many factors beyond its control, including, without limitation: changes in general economic or local conditions; changes in the supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); changes in interest rates; the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; unavailability 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 real estate tax rates and other operating expenses; the imposition of rent controls; energy and supply shortages; various uninsured or uninsurable risks; and natural disasters and terrorist attacks.

#### *Interest Rate Risk and Hedging*

The market values of certain investments managed by Torchlight will generally fluctuate inversely with changes in prevailing interest rates. Interest rates are highly sensitive to many factors, including governmental, monetary, and fiscal and tax policies, domestic and international economic and political considerations, and other factors beyond the control of Torchlight. Interest rate fluctuations can adversely affect the income that certain investments generate in many ways and present a variety of risks,

including the risk of increased prepayments. In addition, debt instruments with longer durations tend to be more sensitive to changes in interest rates and spreads, making them usually more volatile than debt instruments with shorter durations. To the extent that Torchlight does not hedge these changes, or hedging techniques employed by Torchlight do not offset these changes, an investment's returns will also fluctuate in relation to these changes. The variety of hedging techniques employed by Torchlight and the different characteristics of assets in which Torchlight may invest on behalf of Torchlight Funds make it very difficult to precisely predict the impact of interest rate changes on an assets performance. In addition, the costs associated with hedging arrangements may be substantial and there can be no assurance that adequate hedging arrangements will be available on an economically viable basis.

#### *"Widening" Risk*

The prices of the assets in which a Torchlight Fund invests may decline substantially. Volatility, uncertainty in public markets, particularly in debt markets, may have the impact of increasing the spreads between debt instruments and their relevant benchmarks, indicating an increasing risk of default. Thus, purchasing assets at what may appear to be "undervalued" levels is no assurance that these assets will not be trading at even more "undervalued" levels at a time of sale by the Torchlight Fund. It may not be possible to predict, or to hedge against, such "spread-widening" risk. Additionally, a perceived discount in pricing may still not reflect the true value of the real estate assets underlying debt instruments in which the Torchlight Fund invests, and therefore further deteriorations in value may occur following the Torchlight Fund's investment therein.

#### *Extension and Prepayment Risk*

Investments purchased at discounts are subject to the risk that a slower than expected rate of principal payment on the underlying mortgage loans could result in an actual yield that is lower than the anticipated yield from these investments. The yield on any investment will be affected by the rate and timing of principal payments applied in reduction of the actual or, in the case of certain interest-only debt instruments, the notional principal amount of such assets. The rate and timing of these principal payments, or in the case of principal losses, principal or notional write-downs, will be affected by, among other factors, (i) the collection experience on the underlying mortgage loans, particularly unscheduled principal payments or collections in the form of voluntary prepayments of principal or unscheduled recoveries of principal due to defaults, and (ii) the order of priority in which such principal and collections are distributed in reduction of the actual or notional principal balance of the assets. Although the underlying mortgage loans within each transaction invested in by Torchlight Funds may offer structural protection to early voluntary repayment in the form of prepayment penalties or yield maintenance payments, most subordinate classes will not receive such penalties or payments.

#### *Risks of Subordinate Debt Instruments and Equity*

Torchlight, on behalf of Torchlight Funds, invests in subordinate debt instruments backed by commercial real estate assets, such as subordinate CMBS, subordinate or mezzanine mortgage loans, preferred equity and equity in commercial real estate (as well as interests in entities that hold such investments) (together, "Subordinate Real Estate Interests"). Subordinate Real Estate Interests involve greater credit risk of loss than investments in senior debt instruments secured by commercial real estate. Risk of loss may be further pronounced in the case of Subordinate Real Estate Interests secured by, or evidencing an interest in, a relatively small, less diverse pool of underlying mortgage loans, or in some instances a single property. Equity investments are subordinate to all creditors in the real estate capital stack and generally absorb all losses before lenders incur losses. Subordinate debt instruments will absorb all losses from the underlying

real estate before more senior classes absorb losses, and the risk of loss with respect to subordinate debt instruments increases as the amount of equity in the property decreases. Such debt instruments therefore carry the risk of loss typically associated with equity investments.

Torchlight, on behalf of Torchlight Funds, invests in debt instruments of varying credit quality such as lower rated or subordinate CMBS. Torchlight invests in debt instruments that may be deemed by nationally recognized rating agencies or other measures to have substantial vulnerability to default in payment of interest and/or principal. Debt instruments purchased on behalf of Torchlight Funds may have the lowest quality ratings provided by the rating agencies or may be unrated. Lower rated and unrated debt instruments have large uncertainties or substantial risk exposures to adverse conditions. Generally, such debt instruments offer the potential for greater returns than higher rated debt instruments but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these subordinate debt instruments are more sensitive to changes in economic conditions than higher rated debt instruments or more senior debt instruments. Declining real estate values will increase the risk of loss upon default and if rated, may lead to a downgrade of the debt instruments by the rating agencies, which would likely reduce the values of these debt instruments and have an adverse effect on Torchlight Funds that invest in them. The value of such debt instruments may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

#### *Risks Associated with Commercial Property Loans*

Torchlight originate or otherwise invests in loans secured by various types of commercial real estate, including but not limited to multifamily, hotel, retail, office, mobile home, student housing, self-storage, industrial, and mixed-use properties (collectively "Loans"). Such Loans are subject to normal credit risks as well as those generally not associated with traditional debt instruments. The ability of the borrowers to repay the Loans will typically depend upon the successful construction or rehabilitation and operation of the related real estate projects and the availability of financing. Any factors that affect the ability of the projects to generate sufficient cash flow could have a material effect on the value of the Loans. Such factors include, but are not limited to (a) the uncertainty of cash flow to meet fixed obligations, (b) adverse changes in general and local economic conditions, including interest rates and local market conditions, (c) tenant credit risks, (d) the unavailability of financing, which may make the operation, sale, or refinancing of a property difficult or unattractive, (e) vacancy and occupancy rates, (f) construction and operating costs, (g) regulatory requirements, including zoning, rent control and real and personal property tax laws, rates and assessments, (h) environmental concerns, (i) project and borrower diversification, (j) vandalism (with attendant security costs), (k) uninsured losses, (l) restrictions and compliance costs imposed by the Americans with Disabilities Act and similar federal, state, or local laws, and (m) general nonrecourse status. In addition, commercial properties often involve a single user or tenant, or relatively few tenants, which can increase risk of loss. 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.

#### *Leverage Risks; Cross Collateralization*

Subject to limitations applicable with respect to each Torchlight Fund, Torchlight uses leverage in connection with its investments. While the use of leverage may enhance returns and increase the number of investments that can be made by Torchlight, it also substantially increases the risk of loss. Also, there can be no assurance that financing will be available to Torchlight, that it will be available on a continuous

basis or that it will be available on favourable terms. Torchlight may also not be able to obtain financing with a term that matches the maturity of the investments acquired with such financing. In such a case, Torchlight may need to liquidate investments to pay off such financing or to obtain replacement financing on less favourable terms. Torchlight, depending on each Torchlight Fund, may leverage investments through the use of derivative instruments, senior loans secured by commercial real estate, credit lines, options, commodity futures contracts, short sales, swaps, forwards, synthetic contracts and securitizations. The amount of borrowings that may be outstanding at any time on a Torchlight Fund's investments may be large in relation to its capital.

A Torchlight Fund's assets, including any investments made by the Torchlight Fund, are available to satisfy all liabilities and other obligations of the Torchlight Fund. If the Torchlight Fund defaults on secured indebtedness, the lender may foreclose, and the Torchlight Fund could lose its entire investment in the collateral for such loan. If the Torchlight Fund itself becomes subject to a liability, parties seeking to have the liability satisfied have recourse to the Torchlight Fund's assets generally and not be limited to any particular asset, such as the investment giving rise to the liability. The Torchlight Fund's financing arrangements can be structured where some or all investments are cross-collateralized. As a result, the Torchlight Fund could lose its interests in performing investments that are cross collateralized with poorly performing or non-performing investments.

#### *Derivative and Counterparty Risks*

Torchlight from time to time utilizes derivative instruments and techniques in order to hedge interest rate and other risks to which Torchlight Funds are subject or to take on synthetic exposure to an investment. Engaging in derivative transactions is subject to specific risks. The prices of all derivative instruments, including options and swaps, are highly volatile. Price movements of options, contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the debt instruments or other instruments underlying them. In addition, the use of derivative instruments and techniques involves the risk of the failure of any counterparty to a derivative instrument.

Many of the markets in which Torchlight will execute transactions for Torchlight Funds will be "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 a Torchlight Fund 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 applicable contract (whether or not such dispute is bona fide) or because of a credit or liquidity problem, causing the Torchlight Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Torchlight has concentrated its Torchlight Funds' transactions with a single or small group of counterparties.

#### *Valuation Risk*

The values of a Torchlight Fund's investment positions can be highly volatile and sometimes require input from Torchlight or other third parties. Valuations requiring input from Torchlight or other third parties may be based on subjective inputs of Torchlight or such third parties and may be influenced by, among other things, interest rates, changing supply and demand relationships, governmental, trade, fiscal, monetary and exchange control programs and policies, and national and international political and



economic events. In some cases, valuation of certain investments is based upon models, indicative quotes or estimates of value and not actual executed historical trades. Torchlight will use reasonable efforts to base such valuations on observable market prices and inputs but there can be no assurances that such information will be readily available. There can be no assurances that illiquid investments can be disposed of or liquidated at the valuations established by Torchlight or other third parties. Torchlight will face a conflict of interest when it values investments in instances when its fee is based on such valuations (as specified in the Governing Agreements of the relevant Torchlight Fund). To address these conflicts of interests, Torchlight follows valuation procedures that are designed to produce objective valuations in accordance with generally accepted accounting principles.

#### *Extension Risk*

Torchlight Funds may acquire certain CMBS investments at a discount. Such investments are subject to the risk that a slower than expected rate of principal payment on the underlying mortgage loans could result in an actual yield that is lower than the anticipated yield from these investments.

#### *Prepayment Risk*

The yield on any debt investment will be affected by the rate and timing of principal payments applied in reduction of the actual or, in the case of certain interest-only securities, the notional principal amount of such assets. The rate and timing of these principal payments, or in the case of principal losses, principal or notional write-downs, will be affected by, among other factors, (i) the collection experience on the underlying mortgage loans, particularly unscheduled principal payments or collections in the form of voluntary prepayments of principal or unscheduled recoveries of principal due to defaults and (ii) the order of priority in which such principal and collections are distributed in reduction of the actual or notional principal balance of the assets. Although underlying mortgage loans within each CMBS transaction invested in by a Torchlight Fund may offer structural protection to early voluntary repayment in the form of prepayment penalties or yield maintenance payments, most subordinate classes of CMBS, such as certain CMBS that are expected to be acquired by Torchlight Funds, will not receive such penalties or payments.

#### *Cybersecurity Breaches and Identity Theft*

Torchlight and each Torchlight Fund will be reliant upon their respective financial, accounting and technology systems and networks to process, transmit and store information, including sensitive client and proprietary information, and to conduct many business activities and transactions with clients, advisors, vendors and other third parties. The foregoing entities also will rely on third parties for certain aspects of their business, including financial intermediaries and technology infrastructure and service providers, and these parties are also susceptible to cybersecurity risks.

Although Torchlight and the Torchlight Funds will take protective measures and endeavour to modify them as circumstances warrant, their information and computer systems, software, networks and mobile devices, and those of third parties on whom the foregoing entities will rely, may be vulnerable to cyber-attacks, breaches, unauthorized access, theft, misuse, computer viruses or other malicious code, network failures, computer and telecommunication failures, usage errors by their respective professionals, power outages, fires, tornadoes, floods, hurricanes, earthquakes and other events that could have a security impact. If any such events occur, it could jeopardize each affected entity's, as well as their clients', employees' or counterparties' confidential, proprietary and other sensitive information processed and stored in, and transmitted through, such entity's or third-party's computer systems, networks and mobile

devices, or otherwise cause interruptions or malfunctions in operations of the affected entities. Despite the efforts of Torchlight and the Torchlight Funds to ensure the integrity of their systems and networks, it is possible that the foregoing entities may not be able to anticipate or to implement effective preventive measures against all threats, especially because the techniques used change frequently and can originate from a wide variety of sources. As a result, affected entities could experience disruption of their business, significant losses, increased costs, reputational harm, regulatory actions or legal liability, any of which could have a material adverse effect on the Torchlight Fund's financial performance. Affected entities may be required to spend significant additional resources to modify their protective measures or to investigate and remediate vulnerabilities or other exposures, and they may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that such entities maintain. Cybersecurity is viewed as an emerging risk and the scope of the risk and related mitigation techniques are not yet fully understood and are subject to continuing change.

### *Subscription Line Financing*

Each Torchlight Fund in the Debt Fund series is expected to enter into a subscription credit facility that is secured by the limited partners' unfunded capital commitments. A subscription credit facility does not increase a fund's investment capacity but rather allows the fund to finance its activities by borrowing on the facility rather than drawing down the capital commitments of the limited partners. Since the limited partners' preferred return accrues on capital contributions but does not accrue on amounts borrowed under a subscription credit facility, borrowing on the facility in lieu drawing down capital commitments reduces the amount of preferred return that would otherwise accrue and therefore may accelerate the timing of, and possibly increase the amount of, carried interest distributed to the general partner. Borrowing under the facility causes the fund to incur expense it does not incur when it finances its activities through capital contributions. Accordingly, Torchlight faces a potential conflict of interest in determining whether to finance activities of a Torchlight Fund by borrowing on the subscription credit facility rather than drawing down capital commitments. Borrowing on the subscription credit facility to finance investments, rather than drawing capital commitments, will cause the rate of return calculated on the limited partners' invested capital to be higher than it otherwise would be (assuming the return on such investments exceeds the cost of borrowing under the facility). In light of the foregoing, the General Partner may have an incentive to fund the acquisition of portfolio investments and ongoing capital needs of the Fund with the proceeds of borrowings under subscription facilities or other borrowings guaranteed by the Fund in lieu of drawing down unused Commitments. The credit agreement with the lenders under a Torchlight Fund's subscription credit facility may also restrict a limited partner's ability to transfer its interest in the fund.

### *Discontinuation of LIBOR*

It is expected that the U.S. dollar London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after June 30, 2023 (other than the one-week and two-month tenors, which ceased to be published after December 31, 2021). In anticipation of the end of LIBOR, the United States Federal Reserve, in conjunction with the Alternative Reference Rates Committee ("ARRC"), is recommending replacing U.S. dollar LIBOR with a new reference rate derived from short-term repurchase agreements backed by Treasury securities, the Secured Overnight Financing Rate.

A number of investments and/or liabilities of a Torchlight Fund may have interest rates with a LIBOR reference. While it is common for recently issued instruments to contemplate a scenario where LIBOR is no longer available by providing for an alternative rate setting methodology and mechanisms to amend

the applicable reference rate, there are significant uncertainties regarding the effectiveness of any such alternative methodologies. In addition, any financial contract to which a Torchlight Fund is a party that has a maturity that extends beyond June 2023 and uses LIBOR as a reference rate (other than contracts that include curative fallback language or which have other curative mechanisms available, such as safe harbor legislation adopted in the State of New York to permit the replacement of LIBOR with the rates recommended by the ARRC in contracts governed by New York law) may need to be renegotiated, the process of which will consume resources of the Torchlight Fund and may result in disputes among counterparties. Moreover, there is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases or volatility in risk-free benchmark rates or borrowing costs to borrowers, any of which could adversely affect the performance of Torchlight Funds.

#### *Role as Special Servicer*

As part of their investment strategy, Torchlight Funds (in particular, the Debt Fund series) will acquire the subordinate (or controlling) class of CMBS trusts. In those circumstances, Torchlight will appoint TLS as special servicer on behalf of the Torchlight Fund. This gives rise to various conflicts of interest as Torchlight has financial incentive to invest the capital of a Torchlight Fund in securities that will authorize the Torchlight Fund to appoint TLS as special servicer. Please see Item 5 “Fees and Compensation – Special Servicing” above for further information.

In connection with TLS’ activities as a special servicer, Torchlight and its affiliates may be named in lawsuits brought by parties with interests in CMBS as well as the underlying mortgage loans and properties that serve as collateral. Please contact Torchlight for additional information related to such legal matters.

Risk factors and conflicts of interest relevant to each Torchlight Fund are discussed more specifically in the private placement memorandum of each fund.

The discussion in this Item 8 is not applicable with respect to Torchlight’s activities as collateral manager for CDOs.

#### **Item 9: Disciplinary Information**

Torchlight has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction. Likewise, no persons involved in the management of Torchlight have been subject to such action.

#### **Item 10: Other Financial Industry Activities and Affiliations**

TLS is a special servicer to CMBS trusts. Torchlight Funds have the authority to appoint the special servicer to a CMBS trust by virtue of owning the “controlling class” of the issuer. In those circumstances, Torchlight faces various conflicts of interest in determining whether to appoint TLS on behalf of the Torchlight Fund as Torchlight will receive a financial benefit from the fees TLS receives as special servicer. Torchlight will appoint TLS as special servicer on behalf of Torchlight Funds when it has the authority to do so. In addition, TLS does not share servicing fees with Torchlight Funds that appoint TLS as special servicer, notwithstanding that the practice has become common for special servicers, including TLS, when they are appointed by unaffiliated third parties. See Item 5 for a detailed discussion of TLS’ services and compensation and related conflicts of interest.

Affiliates of Torchlight serve as the general partner/managing member for several funds that are not registered with the SEC (collectively “Torchlight Funds”). Torchlight Funds invest in commercial real estate

related investments (primarily debt) but may employ a variety of investment strategies over time. Certain Torchlight Funds act as either a “feeder fund” or “master fund” in a “master-feeder” fund structure.

Torchlight faces a conflict of interest in allocating investment opportunities among Torchlight Funds. Torchlight seeks to address these conflicts by having established policies and procedures for allocating securities transactions and other investment opportunities. Such procedures are designed to provide for a fair and equitable allocation of securities transactions and other investment opportunities among Torchlight Funds over time. In particular, such procedures provide that when Torchlight considers a publicly traded security to be an appropriate investment for more than one Torchlight Fund, the security will be allocated among those Torchlight Funds on a pro rata basis subject to considerations such as available capital, diversification, and size of the Torchlight Funds’ portfolios. For certain privately negotiated real estate investments and subordinate CMBS that would entail a potential for conflict of interest between co-investors, Torchlight will allocate opportunities between Torchlight Funds for which such investments would be appropriate on a rotating basis taking into account such factors as diversification, available capital, target returns, the remaining term of the Torchlight Fund, and any existing relationship between a Torchlight Fund and the borrower.

Torchlight Funds always have priority over Torchlight proprietary accounts in the allocation of investment opportunities.

Torchlight has engaged Metsch & Metsch LLP to provide legal and compliance services to Torchlight and Torchlight Funds. Pursuant to Torchlight’s engagement of Metsch & Metsch LLP, Richard Metsch, a partner of Metsch & Metsch, acts as chief compliance officer of Torchlight (a position he has held since December 2014). Through Metsch & Metsch, Richard Metsch also provides legal services to Torchlight and the Torchlight Funds. Those services include fund formation work, as well as advice on corporate and regulatory matters. There is some overlap between work done by Richard Metsch as chief compliance officer of Torchlight and work done by Metsch & Metsch as outside counsel to the Torchlight Funds. For example, Torchlight believes it is common practice for outside law firms to draft fund formation documents, such as a private placement memorandum and a limited partnership agreement, and for outside law firms to review related marketing materials, and it is also common practice for the chief compliance officer of an investment adviser to such funds to review the fund formation documents and marketing materials. Thus, Torchlight faces a conflict of interest in allocating fees for services performed by Richard Metsch that could be performed by both outside counsel to a Torchlight Fund and as chief compliance officer to Torchlight. Under Torchlight’s expense allocation policy, when Richard Metsch performs services that Torchlight would otherwise engage outside counsel to a Torchlight Fund to perform or review (such as drafting fund formation documents or reviewing marketing materials for a Torchlight Fund) Torchlight charges his time to the relevant Torchlight Fund (regardless of whether a chief compliance officer might otherwise review such work). When Mr. Metsch performs services that would be performed by a chief compliance officer and would not otherwise be performed or reviewed by outside counsel to a Torchlight Fund (such as attending Torchlight Valuation Committee meetings) Torchlight charges his time to Torchlight. Allocations of Metsch & Metsch fees are reviewed and approved by Torchlight’s Chief Operating Officer, Torchlight’s Chief Financial Officer of Funds, and Torchlight’s Corporate Controller.

As an attorney with over 30 years’ experience and as Torchlight’s Chief Compliance Officer, Richard Metsch consults with Torchlight in determining which outside law firms Torchlight will engage to perform services for Torchlight Funds. Accordingly, Richard Metsch faces a conflict of interest in deciding whether to recommend that Torchlight engage Metsch & Metsch LLP rather than a different outside law firm. However, Richard Metsch has been primarily responsible for drafting the governing documents of all

Torchlight funds launched from the time he joined Shearman & Sterling in 2001 to the present and he has served as Torchlight's Chief Compliance Officer since December 2014. As such, Mr. Metsch is very familiar with the Torchlight Funds and Torchlight, and Torchlight will generally engage Metsch & Metsch LLP to perform services for the Torchlight Funds in areas within the competence of Metsch & Metsch. All decisions to engage Metsch & Metsch LLP for matters that are material are made by Torchlight's senior management based on cost estimates given by Metsch & Metsch and management's view of the benefits to be derived from Mr. Metsch's experience and familiarity with Torchlight.

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

Torchlight and its affiliates are permitted to trade or invest proprietary capital in securities in which Torchlight Funds may also invest (although at the present time Torchlight and its affiliates do not do so). Such trading or investments create actual or potential conflicts of interest as Torchlight and its personnel may have a greater incentive with respect to the performance of proprietary accounts than accounts of Torchlight Funds. Torchlight has established policies and procedures that address such conflicts of interest, such as allocation procedures for securities transactions. Such procedures are designed to provide for a fair and equitable allocation of securities transactions among Torchlight Funds, and to place the interests of Torchlight Funds ahead of the interests of Torchlight and its personnel when trading securities.

Torchlight and its principals or employees and other affiliates invest in Torchlight Funds and therefore have direct financial interests in such funds. Torchlight Funds are treated without preference as clients of Torchlight. From time to time, Torchlight and its principals or employees and other affiliates may purchase, sell or hold positions in securities recommended to Torchlight Funds. Various procedures, including a personal trading policy in the Code of Ethics ("COE") for Torchlight's principals and employees, are maintained to address the conflicts involved in such investment activity. Torchlight's COE is designed to seek assurance that all persons covered by the COE and, in particular, Torchlight's investment personnel and other employees having access to Torchlight Fund holdings or trading information:

- Act with integrity, competence, diligence, respect, and in an ethical manner in all dealings with the public, Torchlight Funds, prospective investors and prospective clients, their colleagues in the investment profession, and other participants in the global capital markets; and
- Comply at all times with applicable provisions of the federal securities laws.

The COE also establishes specific requirements as to the conduct of personal trading activities (which often includes trading on the part of certain family members of covered persons). Among other matters, the COE requires 1) pre-clearance of certain personal securities transactions, 2) reporting of certain personal securities transactions on a quarterly basis, and 3) reporting of certain holdings and securities accounts on an annual basis. Transactions are monitored by Torchlight's compliance personnel, and violations are subject to various sanctions, which may include termination of employment.

While the COE establishes specific conduct standards, it is Torchlight's intent that all persons covered by the COE adhere to it both in letter and in spirit. A copy of the COE is available to any investor in a Torchlight Fund or prospective investor or prospective client upon request.

## **Item 12: Brokerage Practices**

Torchlight generally trades debt instruments for Torchlight Funds under a “bid/ask” spread, so there are generally no commissions paid by Torchlight to brokers and dealers. Torchlight has not entered into any “soft dollar” arrangements with brokers or dealers.

Torchlight may determine, in its discretion, the brokers and dealers to be used, and the commission rates, if any, to be paid, by Torchlight Funds (or other clients). Torchlight will exercise its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best available price and most favourable execution. Best available price and most favourable execution is generally considered to mean a policy of executing portfolio transactions at prices and, if applicable, commissions which provide the most favourable total cost or proceeds reasonably obtainable under the circumstances.

The full range of brokerage services and capabilities applicable to a particular transaction will be considered when making this judgment. Such brokerage services may include but are not limited to: (i) general execution capability; (ii) commission or other compensation rates; (iii) operational capability to clear and settle transactions; (iv) historical trading experience in the security; (v) integrity of personnel; (vi) quality of research and brokerage services and products; (vii) financial strength and stability; (viii) access to the markets for the security being traded; and (ix) access to new investment opportunities. Although the applicability of specific criteria may vary depending upon the nature of the transaction, the market in which it is affected, and the extent to which it is possible to select from among multiple broker-dealers capable of effecting the transaction, Torchlight commonly selects a broker-dealer based primarily upon the price of securities to be bought or sold from the broker-dealer. Torchlight will not execute trades with any broker-dealer to compensate that broker-dealer for investor or client referrals.

Torchlight will from time to time follow the practice of “bunching” the orders of Torchlight Funds for execution, which may result in a better price or lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating account’s proportionate share of such order will reflect the average price paid or received with respect to the total order placed on that day.

## **Item 13: Review of Accounts**

Torchlight periodically monitors portfolios created for Torchlight Funds by performing supervisory management functions which may include, but are not limited to, the following: determining the desirability of an investment for a client, recommending relationships and/or hiring attorneys, auditors, custodians and other third party service providers, monitoring the portfolio for potential changes in credit quality, reviewing reports supplied by third parties with respect to the investments, monitoring general market conditions, and preparing all necessary reports and documents which may be required by the contractual arrangements with clients. Given the fluid nature of financial markets and the continuous flow of information available to portfolio managers, the account review process may be continuous or as needed, in the view of Torchlight under the circumstances. However, time demands associated with individual accounts will vary, sometimes significantly.

Generally, portfolios are monitored by investment professionals such as analysts and portfolio managers. Such reviews are generally overseen by the Investment Committee of Torchlight.

Content of regular reports that are provided to Torchlight Funds and investors in Torchlight Funds regarding their accounts include portfolio information, account values, performance detail, updates on

the firm, updates on market conditions, and other financial information regarding their accounts. Generally, regular reports are provided either monthly or quarterly. Certain investors in Torchlight Funds ask for specific analysis or reports which are provided on an ad-hoc basis. Reports are generally written, but may include oral reports, for example when Torchlight provides investors with one-on-one presentations and account updates.

As collateral manager on two CDOs, Torchlight monitors payments of principal and interest received by the CDOs on securities held by the CDOs and will report any defaults in accordance with the governing documents of the CDO.

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

Torchlight from time to time engages solicitors to introduce prospective qualified investors. Torchlight will generally engage solicitors that are registered with the SEC as a broker-dealer but may engage other solicitors consistent with applicable law. Solicitors are typically paid a percentage of fixed management fees earned by Torchlight from investors introduced by the solicitor but may be paid pursuant to another arrangement. The fee arrangement and terms are described in an agreement with each solicitor and vary according to the investment strategy in which the investor invests. These fee arrangements, and relevant conflicts of interest, are disclosed to the investors introduced by a solicitor.

Investors should be aware that these fee arrangements create an economic incentive for a solicitor to consider Torchlight and its services more favourably than investment advisers that do not make these payments or make smaller such payments.

#### **Item 15: Custody**

Torchlight is deemed to have custody of the assets of Torchlight Funds as to which it or its affiliates acts as general partner or in a similar capacity pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940 (the “Advisers Act”). Torchlight seeks to adhere to the “custody rule” and any exemptions thereunder by delivering audited financial statements to investors in Torchlight Funds within 120 days of fiscal year end. Audited financial statements are delivered to investors in the Debt Fund series by posting the statements to Intralinks, a secure investor reporting portal. The audited financial statements will be prepared in accordance with generally accepted accounting principles by an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board. Investors in Torchlight Funds receive periodic statements of their capital accounts.

#### **Item 16: Investment Discretion**

Torchlight has investment discretion for all Torchlight Funds and has authority to purchase and sell investments for Torchlight Funds without obtaining consent of investors. A non-discretionary account may be established at a client’s request, which would give the client the ability to direct Torchlight not to affect a particular trade that Torchlight recommends. In addition, in the case of a separately managed account (whether not the account is discretionary), the client could direct Torchlight to execute a transaction regardless of whether Torchlight recommended against, or had no opinion about, the transaction. (As noted, Torchlight does not manage separate accounts at the present time.)

When Torchlight enters into a discretionary relationship, Torchlight typically agrees to limitations on Torchlight’s authority, which are set out in the relevant Governing Agreements. Usually these limitations relate to size, nature, and diversification of investments. Torchlight does not have investment discretion with respect to CDOs except as to a decision to dispose of a defaulted security held by the CDO.

**Item 17: Voting Client Securities**

Torchlight generally makes investments in issuers that do not issue proxies to Torchlight. However, in compliance with Rule 206(4)-6 under the Advisers Act Torchlight has adopted and implemented written policies and procedures reasonably designed to assure that if it is necessary for Torchlight to vote the securities of any Torchlight Fund it will do so in the best interests of such fund. In voting securities by proxy for Torchlight Funds, Torchlight votes in a manner that Torchlight determines, in its discretion, is in the best interest of the fund and consistent with Torchlight's duty of care and loyalty to its clients. Torchlight will generally vote for proposals that it believes maximize the value of the security. The factors considered by Torchlight will vary from security to security and from client to client, and may include market information, liquidity, the debtor's financial situation, the industry, and the investment guidelines of the Torchlight Funds. Torchlight will also follow any voting guidelines that have been expressly agreed upon in the Torchlight Fund's Governing Agreements. Investors may obtain a copy of Torchlight's proxy voting policies and procedures upon request.

**Item 18: Financial Information**

Torchlight has no financial commitment that impairs its ability to meet contractual and fiduciary commitments and has not been the subject of a bankruptcy proceeding. Torchlight does not debit fees more than six months in advance.