

MREC Management, LLC

a Registered Investment Adviser

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This brochure provides information about the qualifications and business practices of MREC Management, LLC (hereinafter “MREC” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at this telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at www.adviserinfo.sec.gov. The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

Item 2. Material Changes

This is our disclosure brochure document (“Brochure”) prepared according to SEC Form ADV. This Item will be used to provide our clients and private fund investors with a summary of new and/or updated information contained in future revised versions of the Brochure.

Consistent with SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. Furthermore, we will provide you with other interim disclosures about material Brochure changes as necessary. In addition, we will ensure that all clients and investors in advised private funds will receive a “Brochure Supplement” regarding any of MREC’s investment professionals who will be associating with such client accounts or those of any private funds advised by MREC.

This summary of material changes identifies only the material changes to MREC’s Brochure since its last filing submission on March 30, 2016:

- Item 6 has been updated to disclose that the Firm, through a separately created entity structured as a limited liability company (“LLC”), will pay to the LLC an incentive distribution as consideration, in connection with the offer and sale of certain interests in the Private Fund to prospective investors that are introduced to the Firm by CAIS Capital LLC (“CAIS”). It is further disclosed that CAIS will be entitled to receive a portion of the incentive distribution paid to the LLC in the amount equal to 0.25%, or 25 bps (1% annualized) by investors in the Private Fund investing through CAIS, and only in the event an incentive distribution is earned in that quarter.
- Item 14 has been updated to disclose that the Firm entered into a Distribution Partnership arrangement with CAIS Capital LLC (“CAIS”) on April 13, 2016 for the marketing and distribution of the Private Fund to a network of family offices, wealth managers and registered investment advisers with whom CAIS has established relationships.

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Item 4. Advisory Business

MREC Management, LLC (“MREC”), formed in 2015, is an SEC-registered investment adviser and is principally owned by Ethan Penner and Vicky Schiff through their respective ownership interests in Mosaic Real Estate Investors, LLC. MREC’s principal place of business is located in Los Angeles, CA. As of December 31, 2015, the Firm had \$36,536,978 of regulatory assets under management.

Prior to MREC rendering any advisory services, clients are required to enter into one or more written agreements with MREC setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”).

MREC currently advises Mosaic Real Estate Credit, LLC (the “Private Fund”), a Delaware limited liability company with a focused, well defined investment strategy originating or acquiring short term loans collateralized by real estate. The Private Fund is structured to provide optimal alignment between MREC, its management team and the Private Fund’s investors. The capital contributions to the Private Fund may include a co-investment by Mosaic Real Estate Investors, LLC, (“Mosaic”) an affiliate of MREC, the principals of Mosaic, MREC itself and/or other of its affiliates. The Private Fund, additional alternative investment funds sponsored by Mosaic and managed and advised by MREC, and co-investment vehicles (including any special purpose vehicle issuers created and offered pursuant to Rule 506(c)) may be investment vehicles through which Mosaic, MREC and its principals pursue the strategy of owning short-term real estate debt, excluding any legacy investments.

While this Brochure generally describes the business of MREC, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on MREC’s behalf and is subject to the Firm’s supervision or control.

Investment Management Services

MREC manages client investment portfolios, including the Private Fund, on a discretionary basis. The primary goal of the Private Fund is to create stable and predictable cash flow with a high level of principal protection. The short-term nature maturities of the Private Fund’s investments, with most maturities expected to be less than or equal to three years, will seek to protect MREC’s investors against inflation and the prospect of rising interest rates while the short-term nature of principal repayments will help to fund annual liquidity provisions.

In addition to owning first mortgage interests, MREC, through the Private Fund, may invest in other forms of debt exposure through joint ventures or other structured finance products such as mezzanine debt, preferred equity, or corporate ownership of companies that own these asset types.

MREC tailors its advisory services to meet the specific needs of its clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives.

MREC consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios.

Co-Investment Strategy

Mosaic, MREC and/or their affiliates may offer co-investment opportunities for future investments to potential investors by utilizing certain of the JOBS Act provisions, namely the Rule 506(c) exemption under Regulation D, allowing for the general solicitation of private placements to accredited investors.

Mosaic, MREC and/or their affiliates may also offer co-investment opportunities directly to existing investors or new investors, which will be subject to co-investment agreements in the form of separate accounts offered as single or dual investor funds. These agreements may provide for more favorable terms to the co-investors whereby existing investors in the Private Fund may be disadvantaged. Such favorable terms may include liquidity terms, expense and fee allocation terms, and opportunities to invest in future investments.

Customary to all transactions, Mosaic, MREC and/or their affiliates may create a Single Purpose Vehicle entity (“SPV”) whereby current, new or Rule 506(c) investors and the Private Fund will fund an investment into the SPV on a pari-passu basis, and the SPV will in turn make a loan to a borrower or make a preferred equity investment into a property identified by Mosaic and MREC. The economics will be pari-passu, and MREC may earn a 25% incentive distribution from both the current, new or Rule 506(c) investors’ portion of profits (if any) and the Private Fund (as detailed in the Private Fund’s offering materials).

Please see Item 12. “Brokerage Practices” and “Other Compensation” in Item 14 for additional details on potential co-investment opportunities sponsored by Mosaic, MREC and/or their affiliates.

Item 5. Fees and Compensation

MREC currently charges an annual management fee of 2.5% of the net asset value of a Private Fund investor's unit calculated at the end of each calendar quarter to those investors in the Private Fund who do not qualify as "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940 (as amended), and who are therefore prohibited from incurring any performance based charges (i.e. an "incentive distribution" as defined in Item 6 herein). Other than as described in this Item 5, MREC does not provide any services for a management fee (i.e., a fee based upon assets under management or advisement).

Additional Expenses

The Private Fund will pay all costs and expenses incurred in connection with its organization and operation (or will reimburse MREC and its affiliates for having actually incurred any such expenses), including, without limitation: (i) all expenses incurred during the closing of a transaction, including, but not limited to, travel, attorneys, accountants, appraisers and other consultants; (ii) any expenses associated with the evaluation and making of potential investments (including travel and any due diligence costs or expenses of any third parties) and all fees for attorneys, accountants, consultants and other professionals or experts (including the fees and expenses for counsel to MREC) arising in connection with the Private Fund's business; (iii) all fees, costs and expenses related to the making, holding, development, management, monitoring, administering, servicing, foreclosing and enforcing or otherwise exercising remedies related to, and sale or other disposition of investments (including any legal, audit, appraisal, structural review, environmental review, insurance, consulting, brokerage, underwriting and indemnification costs and expenses); (iv) all costs relating in any way to any offerings of units, including, without limitation, costs relating to preparing offering documents, travel, complying with the laws of applicable jurisdictions and payment of filing fees; (v) all fees related to accounting, portfolio management and risk management systems and all quotation and valuation costs and expenses, including without limitation, the fees and out-of-pocket expenses of any Valuation Agent; (vi) all costs, fees and expenses relating to investor relations, communications, bookkeeping, accounting and the preparation and mailing of financial, tax and performance information to investors in the Private Fund and any U.S. federal, state and local taxes, filing and registration fees of the Private Fund; (vii) all insurance costs and fees and expenses associated with licensing and insuring the activities of the Private Fund; (viii) all litigation and indemnification expenses; (ix) all costs and expenses related to any financing, hedging, ratings, securitization or capitalization; (x) all expenses related to making temporary investments and any interest expenses; (xi) all expenses associated with software licensing fees necessary to conduct Private Fund related activities; and (xiii) any extraordinary expenses. For accounting purposes, the organization expenses incurred by the Private Fund will be amortized over a period of 60 months or such other time period as the MREC determines to be fair and equitable in its sole discretion.

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

MREC expects to make quarterly distributions (“Member Distributions”) to Private Fund investors in respect of each unit equal to the Member Distributable Income (as described below) allocated to such unit with respect to such quarterly period. “Membership Distributable Income” shall mean, with respect to any quarterly period, (a) Distributable Income allocated to such unit with respect to such quarterly period less (b) any Incentive Distributions paid with respect to such unit.

MREC shall receive a quarterly incentive distribution (the “Incentive Distribution”) in respect of each unit equal to 25% of (a) Distributable Income allocated to such unit with respect to such quarterly period, as adjusted up or down (as the case may be) for (b) any Impairment Amount (as described below) with respect to such unit as of the end of such quarterly period (the “Income Subject to Incentive Distribution”), provided that Distributable Income allocated to such unit with respect to such quarterly period constitutes an increase over the Incentive Distribution Base (as defined below) of such unit during such calendar year by at least 1% per quarter (4% per annum) (the “Incentive Distribution Threshold”).

“Incentive Distribution Base” will, with respect to a unit, equal the capital contribution made in respect of such unit.

“Distributable Income” shall mean, with respect to any quarterly period, the sum of (a) all interest payments and any other cash income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that are received by the Private Fund from investments) received by the Private Fund during such quarterly period not constituting a return of capital, in each case determined after the deduction of applicable fees, payment of expenses and liabilities (including, without limitation, funds expended for payments of principal and interest on indebtedness) and all amounts required in MREC’s discretion to pay or reserve for current or potential costs, expenses, indebtedness, liabilities and other obligations and (b) any reduction in reserves of the Private Fund during such quarterly period.

The “Impairment Amount” for any given quarter shall be (a) the amount, if any, of adjustments made by MREC during such quarter in the values of investments to reflect severe and sustained changes in the value of such investments (“Impairment Adjustments”), which Impairment Adjustments may be further adjusted up or down from time to time by MREC in its reasonable discretion (provided that the Impairment Adjustments for a given investment shall in no event be adjusted up in excess of the cost of such investment) plus (b) any “Impairment Carry Forward Amount” from prior quarters (as described below). The “Impairment Carry Forward Amount” shall be the amount, if any, of Impairment Adjustments from prior quarters that were not adjusted for in the calculation of Income Subject to Incentive Distribution (as described above) in such prior quarters based on a lack of Distributable Income.

In some circumstances, it is possible the Firm will make use of side letters with certain investors in the Fund whose investment in the Fund is a meaningful and significant amount as a percentage of the total assets of the

Fund. In such instances, it is possible that these investors will obtain a more favorable fee structure and/or more favorable terms than other investors in the Fund.

In addition to the fees described above, MREC may, through a separately created entity structured as a limited liability company (“LLC”), pay to the LLC an incentive distribution as consideration, in connection with the offer and sale of certain interests in the Fund to prospective investors that are introduced to MREC by CAIS Capital LLC (“CAIS”). CAIS will be entitled to receive a portion of the incentive distribution paid to the LLC in the amount equal to 0.25%, or 25 bps (1% annualized) by investors in the Fund investing through CAIS (“CAIS Investors”), only in the event an incentive distribution is earned in that quarter and only to the extent of the total incentive distribution earned from CAIS Investors in that quarter, in each case subject to certain special rules. Additional detail of the compensation paid to CAIS may be found in Item 14.

Item 7. Types of Clients

MREC currently provides advisory services to one client: the Private Fund.

Investors in the Private Fund may consist of:

- Individuals (other than high net worth individuals)
- High net worth individuals
- State or municipal government entities
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above
- Hedge funds
- Index Funds
- Family offices
- Retirement accounts

MREC requires investors in the Private Fund to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment.

In general, a minimum investment MREC requires in the Private Fund by an investor is US \$100,000; however, lesser amounts may be accepted in MREC's sole discretion.

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

Methods of Analysis

MREC provides investment advisory services that are customized to each client's investment objectives, time horizon and risk tolerances as set forth in the respective offering documents. In offering advisory services, MREC utilizes the following methods:

Sourcing

MREC will source investments both by using the vast network of direct contacts that its principals have established over three decades as industry leaders as well as the broad network of brokerages companies with whom senior management of MREC have long-standing ties.

Investment Process

A formalized Investment Committee will govern the investment approval process. MREC, in accordance with internally published underwriting guidelines, will underwrite each investment. Such guidelines will detail the five components of commercial real estate analysis (value, cash flow, environmental, structural and borrower experience). Specific source documentation, market information and industry standard due diligence related studies and materials will be collected and independent verification will be required. Third parties will be retained for valuation, environmental, budgeting, zoning, title and engineering analysis. Underwriting will focus on the value of the underlying real estate asset as well as the depth of the market for such asset, with an understanding that our first remedy will be to take control of the asset and dispose of it. Other areas of focus will include fundamental cost and terminal value analysis and the issue of adherence to portfolio diversification constraints. Borrower legal searches, capabilities and track records will also be analyzed. Completed analysis will be presented to the Investment Committee, which will be comprised of the members of MREC's senior management who will make the final investment decisions and will monitor the overall investment strategy and portfolio of the Private Fund in conjunction with the asset management and finance team. Investment Committee approval will be required to cause the Private Fund to originate, acquire or dispose of any investment. For such approvals, unanimous consent is required by the members of the Investment Committee. If a prospective investment materially deviates from the initial terms and commitments outlined in the detailed recommendation, a subsequent Investment Committee meeting will be held to consider and (if deemed appropriate) ratify such changes. Notwithstanding the foregoing, both Ethan Penner and Vicky Schiff, Managing Partner(s) of MREC, shall approve each investment decision and currently compromise the Investment Committee.

Asset Management Process

MREC will employ asset management professionals, whose responsibilities will include close supervision of the borrowers and their operational and/or development teams for each loan originated or owned by the Private Fund, as well as regular monitoring of the general market conditions of the area within which the property is located. In addition, the Firm will engage third party fund control firm(s) to review loan draw requests in the event a loan involves redevelopment and/or development. The asset manager will be expected to visit each property for a site inspection no less frequently than twice per year. There will be quarterly asset management meetings with the MREC's principals to review the updated performance of

each loan. The members of MREC's senior management, who also serve on the Investment Committee, are comprised of seasoned real estate and investment professionals with broad based investment experience with specific expertise in real estate debt.

Investment Strategies

Simply stated, the investment strategy for the Private Fund is to generate superior risk-adjusted returns through the origination and purchase of real estate debt and debt-related instruments. MREC strives to consistently adhere to our mission of acquiring or originating debt instruments with stable and predictable returns and strong principal protection. MREC aims to establish an industry leading, sustained, real estate investment franchise that is known throughout the nation as a dependable financier for borrowers in need for short-term debt.

- MREC will make investments seeking to generate a net (after fees, expenses, Incentive Distributions and reserves), leveraged annualized current target return in the range of 9% - 12%. *See the Private Fund's "Private Placement Memorandum" for important information regarding target return information.*
- Several features of the investment strategy will seek to mitigate risks that might otherwise be associated with the investment profile of the Private Fund, including:
 - Focusing on the geographic locations with the most vibrant economies.
 - The investment process will be governed by MREC's and Mosaic's stringent risk management discipline, including a formalized Investment Committee process.
 - Underwriting will focus on underlying real estate fundamental value analysis, with an emphasis upon protecting the downside and understanding what the disposition value of the underlying property is.
 - Portfolio diversification constraints will serve to smooth out the returns for Private Fund investors, with a goal of protecting investors from a subpar performance of any single investment or geographic location.
 - MREC will utilize asset managers that will be charged with overseeing the performance of each asset financed by the Private Fund.
 - Careful attention will be paid in structuring our investments so as to provide the Private Fund with important legal and financial protection as well as ease of access to a property if a loan defaults.
 - The Private Fund intends to originate or acquire short term loans collateralized by real estate, including but not limited to first mortgage interests, structured finance products such as mezzanine debt, and preferred equity, each with Loan-to-Value ("LTV") exposure not to exceed 70%.

Risk Factors

Investment with MREC or an investment in the Private Fund entails a high degree of risk and is suitable only for sophisticated investors for which an investment in the Private Fund is not their complete investment program and that fully understand and are capable of bearing the risks associated with an investment in the Private Fund. There can be no assurance that the Private Fund's objectives will be achieved, and investors must be prepared to lose all or a portion of their investment in the Private Fund.

Although MREC believes that the Private Fund should be well positioned to take advantage of attractive investment opportunities, there can be no assurance that it will be able to do so. The entry of additional lenders and investors into the segments of the real estate market in which MREC will focus, or a decline in the number or size of transactions anticipated in the formation of MREC's strategy could have potentially adverse consequences for the Private Fund and its investors. Competition for unspecified assets may also result in MREC making investments on less favorable terms than expected. There can be no assurance that targeted investments will be available when MREC seeks investment opportunities or that then available investments will meet the MREC's investment criteria.

MREC and certain affiliates thereof contemplate organizing and sponsoring additional alternative investment funds. Although MREC intends that the targets and investment activities, taken as a whole, for such additional funds will not conflict with the targets and investment activities, taken as a whole, of the Private Fund, it is nevertheless possible that conflicts may arise. In addition, certain senior personnel of MREC and/or its affiliates who serve as members of the Investment Committee may serve in similar roles for additional investment funds organized and managed by MREC or its affiliates. These senior personnel may experience diversions of their attention. However, MREC is currently in the process of implementing formal policies to mitigate any potential conflicts of interests in connection with organizing and sponsoring additional alternative investment funds.

Investment analyses and decisions by MREC may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to MREC at the time of making an investment decision may be limited, and MREC may not have access to detailed information regarding the investment, such as conditions affecting collateral. Therefore, no assurance can be given that MREC will have knowledge of all circumstances that may adversely affect an investment. In addition, MREC expects to rely upon independent consultants in connection with its evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such independent consultants or to the Private Fund's right of recourse against them in the event errors or omissions do occur.

MREC may invest in a variety of real estate-related debt investments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real property investments, MREC will be subject to a variety of risks in connection with such debt investments, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the MREC's exercise of contractual remedies for defaults of such investments.

The Private Fund has an indefinite term. Although MREC expects most investments to generate current

cash flow and to pay off in accordance with their terms, it is possible that any cash flow will occur only after the partial or complete financing, refinancing or sale of an investment, delaying the return to the Members. It is possible that the Private Fund may not encounter favorable financing, refinancing or sale terms for an investment, thereby reducing or eliminating the return.

MREC's current strategy is to originate or acquire debt across a variety of real estate product-types in a variety of geographic locations. Accordingly, MREC will be required to maintain expertise, relationships and market knowledge across a broad range of product-types and geographic regions, and will be subject to the market conditions affecting each such product-type in various markets, including such factors as the local legal and regulatory environment, economic climate, business layoffs, industry slowdowns, changing demographics, and supply and demand issues affecting each such market. This multi-sector approach could require more management time, staff support and expense than would be experienced with a company whose focus is dedicated to a greater extent on a single product-type in fewer jurisdictions than is contemplated by MREC.

The investment strategy for MREC may include both originating investments and acquiring investments in the secondary market. MREC's success hinges on its ability to successfully pursue both of these strategies, although market and other forces may from time to time cause the MREC to pursue one versus the other more vigorously. While most of the risks apply to investments made pursuant to both portions of the investment strategy, in certain cases the risks relating to the origination portion of the strategy and the risks relating to the acquisition portion of the strategy may differ. Prospective investors should consider carefully the risks described herein and how they impact each of the two portions of the investment strategy, as well as the two portions taken together.

MREC generally expects to originate, participate in and/or acquire real estate loans that will often be non-recourse to the borrower. Mortgage investments have special inherent risks relative to collateral value. To the extent MREC makes or acquires subordinated or "mezzanine" debt investments, the MREC does not anticipate having absolute control over the underlying collateral as such MREC will be dependent upon third-party borrowers and agents and will have rights that are subordinate to those of senior lenders. In certain circumstances, the Private Fund's loans may not be secured by a mortgage, but instead by limited liability company or partnership interests or other collateral that may provide weaker rights than a mortgage. In any case, in the event of default, the Private Fund's source of repayment will be limited to the value of the collateral and may be subordinate to other lienholders. The collateral value of the property may be less than the outstanding amount of MREC's investment; in cases in which the Private Fund's collateral consists of partnership or similar interests, the Private Fund's rights and level of security may be less than if it held a mortgage loan. Returns on an investment of this type depend on the borrower's ability to make required payments, and, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan.

While it is anticipated that debt instruments will generally be held to maturity with certain interest rate risk hedged, the value of fixed-income securities that may be held by the Private Fund changes as the general levels of interest rates fluctuate. When interest rates decline, the value of fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline. Investments in lower rated or unrated fixed income securities, while generally providing greater opportunity for gain and income than investments in higher rated securities, usually are less liquid, more volatile and entail greater risk (including the possibility of default or bankruptcy of the issuers of such securities).

Real estate loans originated or acquired by MREC may be at the time of their origination or acquisition, or may become after origination, participation or acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a reduction in the interest rate and a write-down of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. It is possible that MREC may find it necessary or desirable to foreclose on collateral securing one or more real estate loans originated or purchased by the Private Fund. The foreclosure process can be lengthy and expensive.

The mezzanine loans in which MREC may invest may include loans secured by one or more direct or indirect ownership interests in a company, partnership or other entity owning, operating or controlling, directly or through subsidiaries or affiliates, one or more commercial properties. Although not secured by the underlying real estate, mezzanine loans share certain of the characteristics of subordinate loan interests described herein. It is expected that the commercial properties owned by such entities are or will be subject to existing mortgage loans and other indebtedness. As with subordinate commercial mortgage loans, repayment of a mezzanine loan is dependent on the successful operation of the underlying commercial properties and, therefore, is subject to similar considerations and risks, including certain of the considerations and risks described herein. Mezzanine loans may also be affected by the successful operation of other properties, the interests in which are not pledged to secure the mezzanine loan. The entity ownership interests securing the mezzanine loans may represent only partial interests in the related real estate company and may not control either the related real estate company or the underlying commercial property. As a result, the effective realization on the collateral securing a mezzanine loan in the event of default may be limited.

Mezzanine loans may also involve certain additional considerations and risks. For example, the terms of mezzanine loans may restrict transfer of the interests securing such loans (including an involuntary transfer upon foreclosure) or may require the consent of the senior lender or other members or partners or equity holders in the related real estate company, or may otherwise prohibit a change of control of the related real estate company. These and other limitations on realization on the collateral securing a mezzanine loan or the practical limitations on the availability and effectiveness of such a remedy may affect the likelihood of repayment in the event of a default.

Commercial mortgage loans have certain distinct risk characteristics. Mortgage loans on commercial properties generally lack standardized terms, which may complicate their structure and increase due diligence costs.

Commercial mortgage loans also tend to have shorter maturities than residential mortgage loans and are generally not fully amortizing, which means that they may have a significant principal balance or “balloon” payment due on maturity. Mortgage loans with a balloon payment involve a greater risk to a lender than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend upon its ability either to fully refinance the loan or to sell the property securing the loan at a price sufficient to permit the borrower to make the balloon payment. The ability of a borrower to effect a refinancing or sale will be affected by a number of factors, including the value of the property, the level of available mortgage rates at the time of sale or refinancing, the borrower’s equity in the property, the financial condition and operating history of the property and the borrower, tax laws, prevailing economic conditions and the availability of credit for loans secured by the specific type of property.

Commercial mortgage loans generally are non-recourse to borrowers. In the event of foreclosure on a commercial mortgage loan, the value at that time of the collateral securing the mortgage loan may be less than the principal amount outstanding on the mortgage loan and the accrued but unpaid interest thereon.

A portion of MREC's investments may consist of interests in loans originated by banks and other financial institutions. The loans invested in by the Private Fund may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks.

MREC may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of the debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. If the Private Fund purchases participations, then the Private Fund generally will have no right either to enforce compliance by the borrower with the terms of the underlying loan or to set-off obligations that the Private Fund may otherwise owe to the borrower. Furthermore, the Private Fund may not directly benefit from the collateral supporting the loan in which it has purchased the participation. As a result, the Private Fund would assume the credit risk of both the borrower and the institution selling the participation.

Some of MREC's investments may take the form of construction loans. Construction financing is traditionally a riskier form of financing than financing secured by completed commercial properties. Were construction not to proceed as planned, claims against the borrower may arise. Such claims could arise, because, among other things, the construction may take more time and be more expensive than anticipated, materials necessary to do the construction may not be available on a timely basis or necessary financing may not be obtainable to complete construction. If such a claim were successful, delays in payments to the Private Fund may result. In addition, properties that have not been completed are less likely to be fully leased to tenants.

Item 9. Disciplinary Information

MREC is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

In March 2007, the New York Attorney General commenced an industry-wide investigation into, among other things, alleged conflicts of interest and corruption involving investment firms' use of placement agents to obtain investments from public pension plans. The Wetherly Capital Group, LLC and DAV/Wetherly Financial, L.P. (collectively, "Wetherly") investigation focused primarily on certain sub-agents used by Wetherly with respect to the New York CRF. In February 2010, Wetherly and the New York Attorney General's Office entered into an assurance or discontinuance pursuant to which Ms. Vicky Schiff (who was not personally the subject of the investigation) agreed to refrain from being engaged by an investment firm to advise any public pension fund, other than when acting as a principal, shareholder or employee of the engaging firm. This action was concluded in February 2010, and there has been no subsequent action involving Ms. Schiff. While Ms. Schiff was not personally the subject of the New York Attorney General's investigation, and although she was not formally enjoined or barred, Ms. Schiff agreed to comply with the New York Attorney General's Public Pension Fund Code of Conduct and is precluded from being engaged by an investment firm to provide advice, consulting and/or marketing services in connection with potential investments by public pension funds other than as a principal, shareholder, or bona fide employee of the investment firm, where the engagement involves direct or indirect communications with certain government and/or public pension fund officials.

In May 2011, the New Mexico State Investment Council filed a claim in the court of New Mexico State District County, Santa Fe (the State of New Mexico case is D-101-CV-2011-01534, Court of Appeals Case Number 33,787) as well as a related case in the United States District Court (District of New Mexico) (No. 11-CV-00390, the federal case was dismissed without prejudice) alleging that the former CIO of the New Mexico State Investment Council and a financial advisory firm acting as a third party placement agent hired for Wetherly improperly steered New Mexico investments to political supporters of former New Mexico Governor Bill Richardson in an alleged "pay-to-play" scheme in New Mexico. Wetherly, as a firm with which such persons did business, and Ms. Schiff, as a principal of Wetherly, were alleged to have aided, abetted and profited from the alleged scheme. Ms. Schiff and her former partner at Wetherly agreed to a settlement in December 2013, subject to the court's approval, which settlement required Ms. Schiff and her former partner to pay \$100,000 in the aggregate, of which Ms. Schiff paid \$40,000 (or 40%). The court held a fairness hearing in November 2013, and the trial judge approved the settlement on February 12, 2014. The trial judge subsequently dismissed the case on March 30, 2014. On April 19, 2014, qui tam plaintiffs who objected to the settlement appealed to the New Mexico Court of Appeals, which appeal is currently still pending. The briefing for the Court of Appeals was completed during the summer 2015. Oral arguments were presented in December 2015. On March 24, 2016, the Court of Appeals affirmed the district court's approval of the settlements.

Item 10. Other Financial Industry Activities and Affiliations

MREC and/or management personnel of MREC advise the Private Fund. MREC also acts as the managing member of the Private Fund.

Mosaic Real Estate Investors, LLC (“Mosaic”) is an affiliate and related person of MREC. Mosaic is an investment platform that seeks to create investment products that are designed to pursue investment strategies focused on capital protection and stability. Mosaic serves as a sponsor, general partner and/or managing member of pooled investment vehicles managed by MREC.

Ms. Vicky Schiff, Co-Founder & Managing Partner of Mosaic, is also a licensed real estate broker in the State of California and serves as a related person of MREC. In addition, Ms. Schiff, in her individual capacity, has served as an independent director on the board of directors of Dream Unlimited Corp. (TSX: DRM), a Toronto-based publicly traded company listed on the Toronto Stock Exchange, since July 24, 2014. Ms. Schiff serves as a member of DRM’s audit committee. For the services Ms. Schiff renders as a director, she receives compensation in the form of cash payments and subordinate voting shares, as disclosed in DRM’s public regulatory filings. DRM is one of Canada’s leading real estate managers and developers with approximately \$15.0 billion in assets under management in North America and Europe.

Mosaic may, in future, consider a co-investment relationship with DREAM Alternative Trust (TSX: DAT), a separate publicly traded company with its own Board of Directors.

In March 2016, Ms. Schiff was appointed to the board of directors of Vanir Construction Management, Inc., a full service construction management firm that specializes in all aspects of commercial and institutional real estate development and participates in project delivery throughout the nation. For the services Ms. Schiff renders as a director, she receives compensation in the form of cash payments.

Mr. James Bohan, Vice President of Finance & Accounting for Mosaic, is also a certified public accountant (CPA) and serves as a related person of MREC.

Item 11. Code of Ethics

MREC has adopted a code of ethics in compliance with applicable securities laws (“Code of Ethics”) that sets forth the standards of conduct expected of its Supervised Persons. MREC’s Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading of the same securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of MREC’s personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, the Firm’s Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm’s policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities.

The Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm’s access persons. Among other things, the Code of Ethics also requires the prior approval by the Chief Compliance Officer of any transactions by access persons in securities in a limited offering (e.g., private placement), an initial public offering or on MREC’s restricted list (as applicable). The Code of Ethics also provides for oversight, enforcement and recordkeeping provisions.

The Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all access persons are reminded that such information may not be used in a personal or professional capacity other than in connection with their provision of services to MREC, and can never be used for trading in securities.

A copy of the Code of Ethics is available to MREC client and prospective clients. You may request a copy by email sent to compliance@mosaicrei.com, or by calling us at 310-929-4600.

The principals of Mosaic and MREC are also principals of the managing member entities which sponsor the Private Fund. MREC has responsibility for investment management and administrative matters, such as accounting, tax and periodic reporting pertaining to the Private Fund.

MREC and our affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with the Private Fund and/or may involve substantial time and resources of our Firm and our affiliates. Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of our management personnel and employees will not be devoted exclusively to the business of the Private Fund, but could be allocated between such businesses and other of our business activities and those of our affiliates.

Item 12. Brokerage Practices

Recommendation of Broker/Dealers for Client Transactions

MREC does not have any soft-dollar arrangements and does not receive any soft-dollar benefits for its investment transactions. Furthermore, with respect to the Private Fund, MREC does not engage in cross trades, block trades, or permit directed brokerage. MREC's business model is to typically invest in debt, debt-like structured finance instruments collateralized by real estate and other credit-focused arrangements and consequently, will generally not require the use of a broker or the payment of commissions.

Notwithstanding the foregoing, select co-investment opportunities of Mosaic, MREC, and/or any of their affiliates may be offered to prospective investors through WealthForge, LLC, a registered broker-dealer. *Please see "Other Compensation" under Item 14 for details on how the Firm intends to compensate WealthForge, LLC for its services.*

Item 13. Review of Accounts

Account Reviews

MREC reviews the positions of its accounts (the Private Fund) on a real-time, ongoing basis.

The Private Fund's third-party administrator also generates quarterly reports for each investor in the Private Fund, which MREC reviews and approves prior to distribution.

The Private Fund intends to subject its financial statements to an annual audit; however, as the Private Fund only commenced operations in May of this year, an audit firm has not yet been engaged.

Account Statements and Reports

Clients are provided with regular summary account statements directly from the qualified custodian and/or financial institution where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from MREC and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian and/or administrator with any documents or reports they receive from MREC or an outside service provider.

Item 14. Client Referrals and Other Compensation

Client Referrals

The Firm currently provides compensation to certain third-party solicitors for client referrals. On April 13, 2016, the Firm entered into a Distribution Partnership arrangement with CAIS Capital LLC (“CAIS”), a registered broker-dealer, for the marketing and distribution of the Private Fund to CAIS’ network of family offices, wealth managers and registered investment advisers with whom CAIS has established relationships.

MREC may, through a separately created entity structured as a limited liability company (“LLC”), pay to the LLC an incentive distribution as consideration, in connection with the offer and sale of certain interests in the Fund to prospective investors that are introduced to MREC by CAIS. CAIS will be entitled to receive a portion of the incentive distribution paid to the LLC in the amount equal to 0.25%, or 25 bps (1% annualized) by investors in the Private Fund investing through CAIS (“CAIS Investors”), only in the event an incentive distribution is earned in that quarter and only to the extent of the total incentive distribution earned from CAIS Investors in that quarter, in each case subject to certain special rules. Additional detail of the compensation paid to CAIS may be found in Item 14.

In order to clarify how fees might be paid, MREC has provided the following hypothetical examples:

- (a) In a quarter where the Private Fund was able to generate total distributable income equal to 1% (4% annualized) on capital contributions, the investors in the Private Fund would receive the entire 1% distribution and there would be no incentive distribution generated. MREC would not be paid. CAIS would also not be paid in this quarter.
- (b) In a quarter where the Private Fund was able to generate total distributable income equal to 1.25% (5% annualized) on capital contributions, the investors in the Private Fund would receive 1% for that quarter (4% annualized), and an incentive distribution equal to 0.25% (1% annualized) would be generated in that quarter. The entire incentive distribution derived from CAIS Investors’ capital contributions would be paid to CAIS as its profits interest, and MREC would be paid nothing from the incentive distribution generated from CAIS Investors. MREC would still receive its incentive distribution equal to 0.25% (1% annualized) from non-CAIS investors.
- (c) In a quarter where the Private Fund was able to generate total distributable income equal to 3% (12% annualized) on capital contributions, investors in the Private Fund would receive an amount equal to 2.25% (9% annualized) and an incentive distribution equal to 0.75% (3% annualized) would be generated. The CAIS profits interest would be 0.25% (1% annualized) of CAIS Investors’ capital contributions for that quarter and MREC would be paid the remaining 0.50% for that quarter (2% annualized).
- (d) In a quarter where the Private Fund was able to generate total distributable income equal to 4% (16% annualized) on capital contributions, but there is also a 4% (16% annualized) negative impairment amount, investors in the Private Fund would receive 4% for that quarter (16% annualized), and no incentive

distribution would be generated in that quarter. CAIS would have a missed CAIS profits interest of 0.25% (1% annualized) on the negative impairment adjustment. If in any following quarter, that impairment amount is recaptured as a positive impairment adjustment to income subject to incentive distribution, then CAIS would be entitled to the missed CAIS profits interest from the previous quarter as a CAIS Profits Interest Catchup, equal to 0.25% (1% annualized) derived from any incentive distribution generated by the positive impairment adjustment as it relates to CAIS Investors' capital contributions, in addition to any regular CAIS profits interest generated in that quarter as described in Examples (a) through (c) above.

Other Compensation

The Firm and Capital Forge, LLC (“Capitalforge”) have entered into services and technology agreements, whereby Capitalforge will provide the Firm with a number of back office, technology and support services (hereinafter, the “Services”) in connection with any Rule 506(c) offerings contemplated by MREC, Mosaic, and/or any of their affiliates. As consideration for the Services rendered, the Firm has agreed to pay Capitalforge certain fixed fees for licensing, set up, and ongoing technical support.

In addition, the Firm has entered into an issuer agreement with WealthForge, LLC (“WealthForge”), whereby WealthForge will provide the Firm with broker-dealer services and related administrative services in connection with certain private placement offerings contemplated by the Firm. As consideration for the services rendered, the Firm has agreed to pay WealthForge a one-time retention fee as well as a “transaction fee” of 1% (not to exceed a maximum of \$2,000) of an investor’s subscription amount for each accredited investor processed as part of the due diligence and accredited investor verification mandates promulgated under Rule 506(c) of Regulation D.

Item 15. Custody

Investors in the Private Fund receive periodic statements directly from the custodian and/or administrator of the Private Fund. MREC urges Private Fund investors to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

In addition, as discussed in Item 13, MREC may also send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the custodian and/or administrator and compare them to those received from MREC.

Item 16. Investment Discretion

Clients may hire MREC to provide discretionary investment management services, in which case, MREC enters into investment transactions on behalf of its clients without contacting the client prior to each transaction to obtain the client's permission.

MREC's discretionary authority includes the ability to do the following without contacting the client:

- Determine the type of investment transaction to enter into; and/or
- Determine the amount of the investment transaction to enter into.

Item 17. Voting Client Securities

Declination of Proxy Voting Authority

To the extent applicable, MREC generally does not accept the authority to vote a client's securities (i.e., proxies) on their behalf.

Item 18. Financial Information

MREC is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.