

Letter

Colony Credit Real Estate, Inc.'s Strategic Direction and Mismanagement

The Board of Directors
Colony Credit Real Estate, Inc.
515 South Flower Street, 44th Floor
Los Angeles, CA 90071

Re: Colony Credit Real Estate, Inc.'s Strategic Direction and Mismanagement

Dear Directors:

As you know, Blackwells Capital LLC (together with certain of its affiliates, "Blackwells") is an alternative investment management firm and shareholder of Colony Credit Real Estate, Inc. ("Colony Credit" or the "Company"), both directly and indirectly through its ownership of shares of Colony Capital, Inc. ("Colony Capital"). We write in furtherance of our letters to you dated December 9, 2019 (the "December 9 Letter") and December 27, 2019 (the "December 27 Letter"), and in further response to your letter dated December 16, 2019 (the "December 16 Letter").

On a number of occasions, Blackwells has engaged with Colony Credit's board of directors (the "Board") to outline our concerns with the Company's significant underperformance and disappointing financial results since it was formed and publicly listed in February 2018, and the lack of meaningful steps the Board has taken to address the steep and persistent loss of shareholder confidence and market value. To date, those efforts have produced little in the way of action by the Board to actually ferret out and correct the obvious issues underlying the Company's disastrous performance.

The Company's underperformance is the result of not only poor investment decisions and leadership, but also the Board's complacency and failure to appropriately exercise its fiduciary obligations on behalf of the Company and its shareholders. To make matters worse, at a time when the Board should be refraining from saddling the Company with additional long-term obligations, the Board is instead actively considering rewarding those responsible for steering Colony Credit's portfolio into ruin and shattering investors' confidence by directly hiring the same Colony Capital personnel to officially run the Company. We believe that any such action constitutes an egregious breach of the Board's obligations for which we intend to hold it fully accountable.

The Board of Directors
February 7, 2020
Page 2

The Loss of Value to Shareholders is Staggering

As set forth in our December 9 Letter, in less than two years since its formation, the Company, under the stewardship of Chief Executive Officer (“CEO”) Kevin Traenkle, Tom Barrack and the management team at Colony Capital, has experienced a catastrophic destruction of shareholder value. This has occurred during the strongest commercial real estate market in postwar history.

The Company’s financial and share price performance has been abysmal. For instance, the Company’s share price has plummeted by 35%; its tangible book value per share has declined by nearly 30%, with the stock now trading at more than a 25% discount to (an already written down) book value; and dividends to shareholders have been slashed by more than 30%. By contrast, other publicly traded commercial real estate REITs have performed admirably. As two examples, Starwood Property Trust has achieved annualized returns exceeding 10% over the last five years, and a return of more than 32% in 2019 alone, while Blackstone Mortgage Trust has generated annualized returns of more than 13% over the past five years, including gains of more than 21% in 2019. Both of those peer companies are externally managed but, unlike Colony Credit, their stocks trade at a premium to their stated book values and the companies have grown their shareholder dividends.

The Board’s Response Has Been Inadequate

Notwithstanding Colony Credit’s staggeringly poor performance history in both absolute and relative terms during an undeniable boon within the commercial and credit real estate investment markets, the Board has failed to take any tangible corrective action. Indeed, in response to our concerns, the Board’s December 16 Letter urges investors simply to “[r]est assured that we are fully focused on the best interests of our shareholders and are working hard toward enhancing the long-term value of your investment in the Company.” The Company’s record completely belies that assertion.

For example, our December 9 Letter recounts that Blackwells previously suggested the name of an outside, exceptionally well-qualified, industry professional and former public company CEO with a strong track record of value creation that the Board should consider hiring as the Company’s CEO. One Board member even acknowledged that a change of CEOs may be warranted given the Company’s poor performance and agreed to meet with the potential candidate. Subsequently, that Board member canceled the meeting at the eleventh hour with no explanation and without proposing an alternative time. And, despite our subsequent request that the Board member reconsider, no meeting has since been scheduled. In fact, the Board’s December 16 Letter fails to so much as acknowledge that request.

Instead, the Board’s December 16 Letter in purported response to our concerns indicates only that it “has formed a special committee of independent and disinterested directors

which is considering a possible internalization of the Company's management in response to a non-binding letter from Colony Capital, Inc. seeking to explore such a transaction." But that is no response at all.

The Board of Directors

February 7, 2020

Page 3

The Board's letter itself acknowledges that the formation of a special committee is old news and provides no more information than was announced by the Company nearly a month and a half earlier, on November 7, 2019. Moreover, the letter provides no transparency whatsoever regarding the identity of the special committee members or the true scope of the special committee's mandate.

The lack of meaningful information regarding the composition and authority of the special committee is made all the more troublesome by the lone sentence in the Board's December 16 Letter regarding the special committee process—namely, that “the Board is considering a possible internalization of the Company's management in response to a nonbinding letter from Colony Capital, Inc. seeking to explore such a transaction.” This is a significant potential transaction and one that is rife with conflicts. Current management and the Board have proven that they are not capable of evaluating a transaction of this magnitude and importance—one need look no further than the 2015 internalization that resulted in the creation of Colony Capital, the 2017 tri-party merger with Colony Capital and Northstar entities, and the 2017/2018 combination/listing that created Colony Credit to conclude as much.

Colony Credit's Senior Leadership, Not its Management Structure, Is the Problem

As we previously have explained, “[t]he external management structure of Colony Credit is not the problem.” (December 9 Letter, at 5).

Rather, the problem lies with Mr. Barrack, Mr. Traenkle and the rest of the executive leadership team at Colony Capital who have been managing the Company's portfolio through the Company's external manager. The current management team at Colony Capital has proven utterly incapable of delivering on the Company's stated investment objective and of generating shareholder value. There is no reason to believe that employing those same managers directly will change anything.

Over the past two years, these investment managers have captained Colony Credit to the brink of ruin and there is no reason to believe that will change. In fact, while the Board continues to sit on its hands, the passage of time has only further highlighted the ineptitude of Colony Credit's leadership and investment management team as evidenced by the fact that the Company's stock has declined by an additional 7% since our December 9 Letter compared to continued gains in the stock price of its peer companies.

The Board is Conflicted and Actively Harming the Company and its Shareholders

While inexcusable, the Board's plain unwillingness to seriously consider breaking ties with Colony Capital and replacing Mr. Traenkle and the rest of the Company's senior management team with competent personnel is perhaps understandable given their close relationships—of the seven members of the Board, at least five are or were previously employed by Colony Capital or its predecessors. This includes Colony Capital's prior CEO who was terminated from that post in 2018, presumably for poor performance, but inexplicably was allowed to retain his position as Chairman of Colony Credit.

The Board of Directors

February 7, 2020

Page 4

Accordingly, following receipt of your December 16 Letter, our December 27 Letter requested additional information regarding the identity of the so-called "independent and disinterested directors" serving on the special committee, as well as clarity regarding the precise contours of what the full Board authorized the purportedly disinterested group of directors to do. Incredibly, over a month later, neither the Board nor the special committee has bothered to provide any response to those basic questions.

Given current leadership's value destructive track record and consistent pattern of over-promising and under-delivering, we believe the Company has lost the right to allocate and invest additional shareholder capital. Additionally, given Colony Credit's continued abysmal performance, the Board's clear conflicts of interest, and its demonstrated reticence to consider sensible avenues for replacing ineffective leadership and portfolio managers with competent personnel, the Board should immediately put a moratorium on allocating capital to new loans and investments, and cease any consideration or negotiation of Colony Capital's proposal to "internalize" the Company's management by hiring Colony Capital personnel.

The Colony Capital Board May Soon be Reconstituted

Colony Capital's board may be re-constituted in several months should Colony Capital shareholders elect our nominees to that board. Accordingly, we believe it is irresponsible for Colony Credit to evaluate and negotiate a potential transaction with Colony Capital at this time, especially given that a new Colony Capital board may take a markedly different view of any potential internalization, management changes, and strategic alternatives at Colony Credit. As such, the Company should immediately pause any evaluation of the current internalization proposal until after the Colony Capital annual meeting, when there will be clarity on the goforward leadership team at Colony Capital.

As the Company's public filings make perfectly clear: "[t]he Manager's role as

Manager will be under the supervision and direction of the Company’s board of directors.” (Colony Credit, Form 10-Q filed Nov. 8, 2019, at 47). We intend to hold the Board fully accountable for any and all harm that befalls shareholders as a result of any internalization transaction or long-term management agreement struck with Colony Capital, and any other harm that results from continuing to shirk your fiduciary obligations to Colony Credit’s shareholders in favor of the whims of Colony Capital and the incumbent management team.

Very truly yours,
/Jason Aintabi/