

Capital Hotel Management, LLC

Form ADV Part 2A

Investment Adviser Brochure

March 2012

This brochure provides information about the qualifications and business practices of Capital Hotel Management, LLC. If you have any questions about the contents of this brochure, please contact Celeste Ledoux, Controller, at 978.522.7004 and/or clledoux@chmhotel.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Capital Hotel Management, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

548 Cabot Street
Beverly, MA 01915
978.522.7004
clledoux@chmhotel.com
www.chmhotel.com

Item 2: Summary of Material Changes

Annual Update

This Item of the brochure is updated if material changes have occurred during the course of Capital Hotel Management, LLC's (CHM) fiscal year; or with Capital Hotel Management, LLC's Annual Updating Amendment (ADV).

Material Changes since the Last Update

Since the last ADV filing, there are no material changes to report.

Full Brochure Available

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, CHM's Brochure may be requested by contacting Celeste Ledoux, Controller at 978.522.7004 or cledoux@chmhotel.com.

Additional information about CHM is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with CHM who are registered, or are required to be registered, as investment adviser representatives of CHM.

Item 3: Table of Contents

Item 2: Summary of Material Changes	2
Annual Update	2
Material Changes since the Last Update	2
Full Brochure Available	2
Item 4: Advisory Business	5
Firm Description and Types of Advisory Services	5
Principal Owners	5
Types of Services	5
Hotel Asset Management and Investment Advisory Services	5
Tailored Relationships	6
Wrap Fee Programs	6
Client Assets	6
Item 5: Fees and Compensation	7
Compensation	7
Other Fees	7
Agreement Terms	7
General Information on Compensation and Other Fees	7
Item 6: Performance-Based Fees and Side-by-Side Management	9
Item 7: Types of Clients	10
Types of Clients	10
Account Minimums	10
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	11
Types of Investments	11
Methods of Analysis	11
Investment Strategies	11
Risk of Loss	12
Item 9: Disciplinary Information	13
Item 10: Other Financial Industry Activities and Affiliations	14
Financial Industry Activities – Broker-Dealers	14
Financial Industry Activities – Futures and Commodities	14
Financial Industry Activities and Affiliations – Other	14
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	15
Code of Ethics	15
Participation or Interest in Client Transactions – Personal Securities Transactions	15
Participation or Interest in Client Transactions – Principal/Agency Cross	15
Participation or Interest in Client Transactions – General Partner	16
Item 12: Brokerage Practices	17
Research and Other Soft Dollar Benefits	17
Brokerage for Client Referrals	17
Directed Brokerage	17

Item 13: Review of Accounts	18
Reviews	18
Reporting	18
Item 14: Client Referrals and Other Compensation	19
Other Compensation	19
Compensation – Client Referrals	19
Item 15: Custody	20
Custody - Access to Client Funds and/or Securities	20
Custody – Pooled Investment Vehicles	20
Custody – Account Statements	20
Item 16: Investment Discretion	21
Item 17: Voting Client Securities	22
Item 18: Financial Information	23
Form ADV Part 2B – Investment Adviser Brochure Supplement	25
Educational Background and Business Experience	26
Education and Business Background	26
Supervised Persons	26
Disciplinary Information	28
Other Business Activities	29
Additional Compensation	30
Supervision	31

Item 4: Advisory Business

Firm Description and Types of Advisory Services

CHM is an investment adviser. CHM provides hotel asset management and investment advisory services in support of the real estate (hotel) investments of banking and thrift institutions, corporate entities, affiliated and nonaffiliated private investment partnerships, municipal governments, federal government agencies and private equity funds. CHM was founded in 2000.

Principal Owners

CHM is owned by Hotel Investment Advisers, LLC. Hotel Investment Advisers, LLC is indirectly owned by Kenneth D. Wilson, Chief Executive Officer and Chief Compliance Officer, and Chad L. Crandell, President and Operations Leader.

Types of Services

CHM offers a comprehensive package of services encompassing all facets of hotel asset management and investment advisory, when combined, translate into a Hotel Investment Strategy customized to meet client objectives. CHM employs a three-pronged approach to each assignment, designed to optimize hotel investment returns (Hotel Investment Advisory), maximizing hotel operating performance (Hotel Operations/Asset Oversight) and providing clear and consistent lines of communication (Client Communication).

The services described in this Form ADV Part 2A are Hotel Investment Advisory Services, as they are regulated by the SEC. Further information on CHM's other services is available upon request.

Hotel Asset Management and Investment Advisory Services

CHM provides hotel asset management and investment advisory services in support of hotel real estate investments. CHM identifies and executes on opportunities that exist in accordance with client investment parameters. CHM's services include:

- Hotel Operational Oversight
- Acquisition Due Diligence
- Strategic Planning
- Management/Franchise Transitions
- Project Management Oversight
- Contract Negotiations
- Financing Strategies
- Direct Deal Sourcing
- Ownership Accounting and Compliance Reporting

Tailored Relationships

CHM tailors investment advisory services to the individual needs of the client. The goals and objectives for each client are documented. Clients are allowed to impose restrictions on investments. CHM may accept any reasonable limitation or restriction placed by the client. All limitations and restrictions placed must be presented to CHM in writing.

Wrap Fee Programs

CHM does not participate in a Wrap Fee Program.

Client Assets

As of December 31, 2011, CHM manages approximately \$7.3 billion in assets. Approximately \$2.6 billion is managed on a discretionary basis, and \$4.7 billion is managed on a non-discretionary basis.

Item 5: Fees and Compensation

Compensation

CHM bases its fees on a percentage of asset value under management, hourly charges, and fixed fees. CHM's fees are described below.

Compensation – Investment Advisory Services

Fees for investment advisory services will be charged either as a fixed amount based on the value of real estate assets under management at the inception of the agreement, as a percentage of the current value of real estate assets under management, or as a percentage of total revenue of the asset.

Fees may also include a “performance fee” - compensation based on the performance of a hotel against budget or pre-determined base.

In rare cases, primarily at the beginning of a client relationship or for selected consulting engagements, fees are billed hourly.

Fees are generally billed on a monthly basis, both in arrears and in advance, depending on the contract.

Other Fees

On occasion CHM may be paid upon completion of a specified task.

Agreement Terms

CHM or the client may terminate within a time period defined by the agreement (typically 30-90 days) by written notice. If termination is made, the client is responsible for any fees incurred but not yet billed. If the client made an advance payment, CHM will refund any unearned portion of the advance payment.

General Information on Compensation and Other Fees

In certain circumstances, fees, account minimums and payment terms are negotiable depending on client's unique situation – such as the size of the aggregate related party portfolio size and pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, portfolio type, the time involved, the degree of responsibility assumed, complexity of the engagement, special skills needed to solve problems, or the application of experience and knowledge of the client's situation.

Related accounts may be linked for purposes of fee calculation if all parties agree; meaning certain accounts, approved by CHM, may be grouped for fee calculations.

CHM's fees are exclusive of third party consulting charges and related expenses.

Such charges and fees are exclusive of and in addition to CHM's fees, and CHM shall not receive any portion of these fees and costs.

A description of the management fees and performance based fees and how such fees are paid may be found in the Client Agreement.

Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

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

In some cases, CHM has entered into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each such client. CHM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, CHM shall include realized and unrealized capital gains and losses.

Item 7: Types of Clients

Types of Clients

As described in Item 4, CHM serves as investment manager to affiliated and nonaffiliated private investment partnerships. CHM also provides advice to municipal governments, federal government agencies and private equity funds.

Account Minimums

CHM requires a minimum account of \$10,000,000 for investment advisory clients, although this may be negotiable under certain circumstances. Waivers of exceptions from minimum account size may be granted at the exclusive discretion of CHM Management. CHM may group certain related client accounts for the purposes of achieving the minimum account size.

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

Types of Investments

CHM will provide investment advice on equity and debt investments in hotels and monitors those investments through the ownership period.

CHM reserves the right to advise clients on any other type of investment that it deems appropriate based on the client's stated goals and objectives. CHM may also provide advice on any type of investment held in a client's portfolio at the inception of the advisory relationship or on any investment on which the client requests advice.

Methods of Analysis

CHM may employ the following analysis methods: Fundamental; technical; and cyclical. CHM's Property analysis methods include:

Economic Environment

Local and regional economic factors are considered such as trends in business and leisure travel. These factors are viewed in the overall context of the United States and global economies.

Market and Competitive Conditions

CHM identifies hotels in the region within the asset's competitive set based on a variety of factors including size, quality, amenities offered and location. Local and regional market conditions are gathered and analyzed including occupancy and rates at competitive hotels and the pricing and supply of alternative uses such as condominiums.

Physical Assessment

CHM tours each property and assesses the physical condition of the building, the site, and surrounding areas. With respect to the site, zoning, and environmental studies are reviewed and performed if needed. With respect to the building, environmental issues, structural integrity, age, architectural design, amenities, functional obsolescence, and other physical aspects are reviewed. Outside technical consultants are brought in when needed.

Financial Assessment

CHM reviews the financial information of the various components of the hotel (i.e. rooms, restaurants, spa and banquets).

Investment Strategies

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

Risk of Loss

Investing in real estate securities involves risk of loss that clients should be prepared to bear. All investment programs have certain risks that are borne by the investor. CHM's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Item 9: Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of CHM or the integrity of CHM's management. CHM has no information to disclose applicable to this Item.

Item 10: Other Financial Industry Activities and Affiliations

Financial Industry Activities – Broker-Dealers

CHM is not registered as a broker-dealer, and none of its management persons are registered representatives of a broker-dealer.

Financial Industry Activities – Futures and Commodities

Neither CHM nor any of its management persons is registered as (or associated with) a futures commissions merchant, commodity pool operator, or a commodity trading advisor.

Financial Industry Activities and Affiliations – Other

Neither CHM nor any of its management persons have a material relationship or arrangement with any related person or financial industry entities.

Other Business Activities

CHM's Government Services Group provides management and business advice to Municipal, State and Federal agencies. These services may include strategic planning, asset management, outsourcing/privatization, RFP and prospectus development and other related services. The addition of this group to CHM's primary business results in no known conflict of interest.

Other Investment Advisors

CHM does not recommend or select other investment advisors for its clients.

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

Code of Ethics

CHM employees must comply with a Code of Ethics and Statement for Insider Trading. The Code describes the Firms' high standard of business conduct, and fiduciary duty to its clients. The Code's key provisions include:

- Statement of General Principles
- Policy on and reporting of Personal Securities Transactions
- A prohibition on Insider Trading
- Restrictions on the acceptance of significant gifts
- Procedures to detect and deter misconduct and violations
- Requirement to maintain confidentiality of client information

Kenneth D. Wilson, Chief Executive Officer and Chief Compliance Officer, reviews all employee trades each quarter. His/her trades are reviewed by Chad Crandell, President.

CHM's employees must acknowledge the terms of the Code of Ethics at least annually. Any individual not in compliance with the Code of Ethics may be subject to termination.

Clients and prospective clients can obtain a copy of CHM's Code of Ethics by contacting Celeste Ledoux at 978.522.7004.

Participation or Interest in Client Transactions – Personal Securities Transactions

The Code of Ethics, described above, is designed to assure that the personal securities transactions, activities and interests of the employees of CHM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities, primarily mutual funds, have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of CHM's clients. In addition, the Code requires pre-clearance of many transactions. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and designed to reasonably prevent conflicts of interest between CHM and its clients.

Participation or Interest in Client Transactions – Principal/Agency Cross

It is CHM's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. CHM will typically not cross trades between client accounts.

Participation or Interest in Client Transactions – General Partner

Neither CHM nor its employees recommend to clients or buy or sell for client accounts, securities in which they have a material financial interest.

Item 12: Brokerage Practices

Research and Other Soft Dollar Benefits

CHM does not receive soft dollar benefits.

Brokerage for Client Referrals

CHM does not receive client referrals from broker/dealers.

Directed Brokerage

CHM invests primarily in Hotel properties on behalf of clients. CHM may at times recommend real estate brokers. If the client requests CHM to arrange for the execution of securities brokerage transactions for the client's account, CHM shall direct such transactions through broker-dealers that CHM reasonably believes will provide best execution. CHM shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its client in light of its duty to obtain best execution.

The client may direct CHM to use a particular broker to facilitate real estate transactions; the client will negotiate terms and arrangements with that broker. CHM will not seek better execution services or prices from other brokers with orders for other accounts managed by CHM. By directing brokerage, the client may pay higher commissions or other transaction costs, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

There are situations where CHM may hire or recommend an insurance broker or a broker to buy, sell, or refinance an asset. Through the use of a competitive bid process we select or recommend the broker that is the most qualified to perform the task required. The rate negotiated would be comparable to the going market rate in the industry for that type of transaction.

Item 13: Review of Accounts

Reviews

Portfolios are generally monitored on a quarterly basis, however reviews could also occur at the time of new investments, new deposits, material changes in client or property conditions, changes in economic cycles, at CHM's discretion or according to the clients' direction. Reviews entail analyzing properties, sensitivity to overall markets, economic changes and investment results to ensure the investment strategy and expectations are structured to continue to meet clients' objectives.

Reviews are performed under the direction of Kenneth D. Wilson, Chief Executive Officer and Chief Compliance Officer and Chad L. Crandell, President. CHM encourages frequent client contact. However, clients are obligated to promptly notify CHM of any changes in the client's financial status to ensure that investment strategies continue to meet the client's changing needs.

Reporting

CHM may prepare reports or communications related to investment advisory services provided or as may be requested by clients. CHM's reports may include:

- Monthly Operating Performance Reports
- Strategic Asset Management Plans
- Quarterly Performance Metric Reports
- Owner Meetings/Presentations
- CHMiVIEW – Client Accessed Website
- Investment Review Summary
- Industry Articles & Reports

Item 14: Client Referrals and Other Compensation

Other Compensation

CHM does not receive any formal economic benefits (other than normal compensation) from any firm or individual for providing investment advice.

Compensation – Client Referrals

CHM does not make or accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Item 15: Custody

Custody - Access to Client Funds and/or Securities

CHM has custody over client assets in the form of acting as a general partner of a limited partnership in which a client invests or in the form of signature authority over bank accounts.

Custody – Pooled Investment Vehicles

CHM is the Non-Member Manager and investment advisor to Diplomat Properties, LLC (the Fund). CHM has full discretionary investment authority over the Fund's assets. CHM has custody of the investment assets of the Fund by reason of legal ownership or access to such assets.

CHM complies with the SEC's Custody Rule with regard to the custody of the fund. The Fund receives an annual audit and the audited financial statements are sent to investors within 120 days of the Fund's fiscal year end as required.

Custody – Account Statements

As described above and in Item 13, clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients are urged to carefully review such statements and compare such official custodial records to the account statements or other reports that CHM provides. CHM statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16: Investment Discretion

CHM accepts discretionary authority to manage assets.

Item 17: Voting Client Securities

CHM does not have any authority to and does not vote proxies on behalf of clients. Clients retain the responsibility for receiving and voting proxies for securities maintained in their portfolios; clients receive proxies from directly from either custodians or transfer agents.

If requested, CHM may provide advice to clients regarding proxy votes. If any conflict of interest exists, it will be disclosed to the client. Clients may contact Celeste Ledoux at 978.522.7004 for information about proxy voting.

Item 18: Financial Information

CHM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

CHM is not required to provide a balance sheet; CHM does not require prepayment of fees of both more than \$1,200 per client, and more than six months in advance.

This page is intentionally left blank.

Capital Hotel Management, LLC

Form ADV Part 2B Investment Adviser Brochure Supplement

Supervisor: Kenneth D. Wilson

Supervisor of:
Chad L. Crandell
Michael Doyle
Fern Kanter

March 2012

This brochure supplement provides information about the Firm's Supervised Persons that supplements the Capital Hotel Management, LLC's brochure. You should have received a copy of that brochure. Please contact Celeste Ledoux, Controller, at 978.522.7004 and/or clledoux@chmhotel.com if you did not receive Capital Hotel Management, LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about the Firm's Supervised Persons is also available on the SEC's website at www.adviserinfo.sec.gov.

548 Cabot Street
Beverly, MA 01915
978.522.7004
clledoux@chmhotel.com
www.chmhotel.com

Educational Background and Business Experience

Education and Business Background

All investment professionals must have at least a Bachelor's degree. CHM prefers individuals with advanced degrees, industry designations and experience in the industry. All employees are supervised by a member of the Investment Committee all of whom have at least 25 years of experience in the hotel industry in various capacities.

Supervised Persons

Kenneth D. Wilson

Born 1957

Educational Background:

BS Hotel Administration, University of New Hampshire

Business Background:

Capital Hotel Management, LLC

2000 to Present

Chief Executive Officer and Chief Compliance Officer

Mr. Wilson is the co-founder Capital Hotel Management, LLC. Under his leadership, the company's portfolio of asset – managed hotels has grown significantly. Mr. Wilson has over 25 years of hospitality industry experience which encompasses equity and debt structuring and restructuring, asset acquisition and disposition, workouts and bankruptcies, hotel management and franchise selection, contract negotiation, and operational reviews focusing on market positioning and financial performance.

Chad L. Crandell

Born 1961

Educational Background:

BS Hotel Administration, Cornell University

Business Background:

Capital Hotel Management, LLC

2000 to Present

President, Operations Leader

Mr. Crandell is the co-founder of Capital Hotel Management, LLC. Mr. Crandell is the President and Operations Leader of hotel asset management/investment advisory services for CHM. Mr. Crandell has 25 years of industry experience including hotel management and franchise positioning and financial performance, hotel acquisition and disposition strategies.

Michael Doyle

Born 1956

Educational Background:

BS Hotel Management, Cornell University

Business Background:Capital Hotel Management, LLC
Executive Vice President

2004 to Present

Mr. Doyle joined Capital Hotel Management, LLC in 2004 bringing over 25 years of hotel industry experience. Mr. Doyle has been responsible for asset management, property operational reviews, best practices reporting standards and identifying opportunities to create value through revenue enhancement and cost containment. Mr. Doyle directs the efforts and is responsible for the professional development of the CHM asset management team.

Fern Kanter

Born 1957

Educational Background:BA Psychology, SUNY-Albany
MBA Planning, University of Miami**Business Background:**Capital Hotel Management, LLC
Executive Vice President

2000 to Present

Ms. Kanter is responsible for the strategic planning of all assets in CHM's portfolio, as well as those under construction by CHM's investor clients.

Disciplinary Information

Neither CHM nor any Supervised Persons have been involved in any activities resulting in a disciplinary disclosure.

Other Business Activities

Disclosure on Outside Business Activities is provided in Form ADV Part 2A Item 10 – Other Financial Industry Activities and Affiliations above. These Outside Business Activities do not create a material conflict of interest with clients.

As disclosed in Form ADV Part 2A Item 5 – Fees and Compensation, neither CHM nor any Supervised Persons receive commissions, bonuses or other compensation based on the sale of securities or other investment products.

Additional Compensation

No Supervised Person receives any economic benefit outside of regular salaries or bonuses related to amount of sales, client referrals or new accounts.

Supervision

Kenneth D. Wilson, Chief Executive Officer and Chief Compliance Officer, supervises all persons named in this Form ADV Part 2B Investment Adviser Brochure Supplement. Kenneth D. Wilson supervises these persons by holding regular staff, investment and other ad hoc meetings. In addition, Kenneth D. Wilson regularly reviews client reports, emails, and trading, as well as employees' personal securities transaction and holdings reports. Kenneth D. Wilson may be reached at 978.522.7000.