

**Part 2A of Form ADV: *Firm Brochure***

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November 2, 2012

This brochure, dated November 2, 2012 (this "Brochure"), provides information about the qualifications, investment strategies and business practices of Heitman International Real Estate Securities HK Limited ("HIRES HK", the "Firm"), an investment adviser registering with the U.S. Securities and Exchange Commission (the "SEC"). Please note that SEC registration status does not indicate a particular level of skill or training of the Firm or its employees and that neither the SEC nor any state securities authority has approved this Brochure.

The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If clients have any questions about the contents of this Brochure, please contact Dan Leonard at 312-425-0410 or by email at [dan.leonard@heitman.com](mailto:dan.leonard@heitman.com). Additional information about the Firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this site by a unique identifying number, known as a CRD number or the Firm's name. The Firm's CRD number is 165930.

## **Item 2    Material Changes**

The Firm is providing clients with this Brochure in compliance with the SEC's disclosure rules under the Investment Advisers Act of 1940 (the "Advisers Act"). This Brochure provides a summary of the Firm's qualifications, investment strategies, and business practices. Any material changes to this Brochure and subsequent Brochures will be sent to clients within 120 days of the close of the Firm's fiscal year. Any interim disclosures about material changes will also be forwarded to clients as necessary.

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## **Item 4     Advisory Business**

### **Background**

The Firm is an investment adviser registering with the SEC that has its principal place of business in Hong Kong. Please note that SEC registration status does not indicate a particular level of skill or training of the Firm

### **Ownership Structure**

The entities controlling 25% or more of the Firm are:

- Heitman LLC (“HLLC”), Sole Member of Heitman International Real Estate Securities HK Limited

In addition, the following information identifies those entities that directly (“D”) or indirectly (“I”) own 25% or more of HLLC:

- KE I LLC, Member of HLLC (D);
- Old Mutual (HFL) Inc., Member of HLLC (D);
  - Old Mutual (US) Holdings Inc., 100% shareholder of Old Mutual (HFL) Inc. (I);
  - OM Group (UK) Limited, 100% shareholder of Old Mutual (US) Holdings Inc. (I); and
  - Old Mutual Plc, 100% shareholder of OM Group (UK) Limited (I).

### **Other Related Entities**

Section 7A of Schedule D of our Form ADV Part I, which is accessible by following the directions on the Cover Page of this Brochure, discloses entities that are subsidiaries, either directly or indirectly, of Heitman LLC. This disclosure includes all registered investment adviser and broker-dealer affiliates. Other than the affiliate(s) disclosed in Section 7.A of Schedule D, other affiliates of Old Mutual (HFL) Inc. are not listed in this section because the Firm (i) has no business dealings with any of these advisers, (ii) does not conduct joint operations with any of these advisers, (iii) does not refer clients or business to any of these advisers and the advisers do not refer prospective clients or business to the Firm (iv) does not share any supervised persons or premises with the advisers and (v) has no reason to believe that the relationship with any of these advisers creates a conflict of interest with our clients.

Affiliates of the Firm utilize limited partnerships or similar pooled investment vehicles (the “Heitman sponsored funds” or “funds”) for investment purposes principally for institutional investors. Affiliates of the Firm also act as general partner or manager and serve as the investment adviser of these Heitman sponsored funds. Affiliates of the Firm provide each client interested in investing in a Heitman sponsored fund with the fund’s private placement memorandum, which contains information specific to the fund.

Investment funds (the “Funds”) are sponsored by the Firm and its affiliates. An affiliate of the Firm is also a direct adviser to a mutual fund, the Heitman REIT Fund. Additionally, affiliates of the Firm create limited partnerships or similar pooled investment vehicles which are comprised of one or more investors. Similar to the Funds, affiliates of the Firm may act as general partner, as managing partner, or in a similar capacity and serve as the investment adviser for

these investment entities. These entities exist for the purpose of facilitating certain direct investments in real estate on behalf of clients and are not pooled investment vehicles for multiple investors. This type of structure is common for real estate investments and is typical for tax efficiency and limited liability reasons.

## **Advisory Services**

The Firm will provide investment advice and investment management services with respect to investments in equity, convertible and debt instruments of publicly traded Asia-Pacific real estate related companies.

In connection with the provision of the services described above, the Firm will provide continuous advice to clients regarding the investment of client funds based on each client's stated objectives and strategies. Through direct discussions with each client from which investment goals and objectives are identified, we will implement an investment policy that is documented in a separately negotiated investment management agreement.

The Firm may provide advisory services to registered investment companies, affiliated investment advisers, commingled funds, pension and profit sharing plans, institutional and separate account portfolios managed for the benefit of business and institutional entities and high net worth individuals. The opportunity to invest in registered investment companies is made available to institutional investors such as pension and profit-sharing plans, trusts, estates or charitable organizations, individuals and other corporations or business entities.

We will manage these advisory accounts on a discretionary basis. Account supervision will be guided by the client's stated objectives as set forth in each client's investment management agreement (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, industry sectors, or other factors such as geographic location and social concerns.

Our investment management is generally limited to securities of publicly traded real estate related companies as well as managing currency exposure. Such securities may be in one or more of the following categories:

- Exchange-listed securities
- Securities traded in over-the-counter markets
- Foreign issuers
- Warrants

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives.

## **OPEN-ENDED AND FINITE-TERM UNIT TRUSTS**

The Firm may serve as the discretionary investment manager to open-ended and finite-term unit trusts and funds formed pursuant to the laws of Hong Kong and/or the laws of other jurisdictions as appropriate. Units may be offered by the trusts or funds to professional investors.

## **PUBLICATION OF PERIODICALS**

The Firm and/or its affiliates publishes periodic reports, newsletters, and similar documents providing general information on various financial topics including, but not limited to, market trends, economic conditions, conclusions based on independent research, etc. No specific investment recommendations are provided in this material and the information provided does not purport to meet the objectives or needs of any investor. This material may be distributed to our advisory clients. No fee will be charged for such publications.

## **AMOUNT OF MANAGED ASSETS**

As of 11/2/2012, we were not managing any assets.

## **Item 5 Fees and Compensation**

### **Asset Management Fees**

The annualized portfolio management fees will be charged as a percentage of assets under management, typically calculated on a monthly basis and as described in more detail below based upon the investment strategy and size of account.

Fees are negotiable and are generally paid quarterly in arrears. The Firm may accept most favored nations clauses under certain circumstances. The Firm may also be compensated on an incentive fee basis with fees calculated on performance as well as assets under management. The basic fee schedule for separately managed accounts, by strategy, subject to client negotiation, is presently as follows:

Asia Pacific Diversified Strategy – the Asia Pacific Diversified Strategy objective is to seek a return superior to an established and identified benchmark of REIT and REIT-like listed companies anywhere in the world.

### **Fee Schedule for Asia Pacific Diversified Strategy Separately Managed Accounts**

The detailed fee structure is as follows:

<u>Net Assets</u>	<u>Annualized Fee</u>
Up to and including \$10 million (mil)	0.75%
More than \$10 mil but not more than \$25 mil	0.75% on the first \$10 mil and 0.65% on the balance over \$10 mil.

More than \$25 mil but not more than \$50 mil	0.75% on the first \$10 mil; 0.65% on the next \$15 mil; and 0.60% on the balance over \$25 mil
More than \$50 mil but not more than \$75 mil	0.75% on the first \$10 mil; 0.65% on the next \$15 mil; 0.60% on the next \$25 mil; and 0.55% on the balance over \$50 mil.
More than \$75 mil but not more than \$100 mil	0.75% on the first \$10 mil; 0.65% on the next \$15 mil; 0.60% on the next \$25 mil; 0.55% on the next \$25 mil; and 0.50% on the balance over \$75 mil.
More than \$100 mil	0.75% on the first \$10 mil; 0.65% on the next \$15 mil; 0.60% on the next \$25 mil; 0.55% on the next \$25 mil; 0.50% on the next \$25 mil; and 0.45% on balance over \$100 mil.

Asia Pacific Focused Strategy - the Asia Pacific Focused Strategy objective is to seek a return superior to an established and identified benchmark of REIT and REIT-like listed companies anywhere in the world.

#### **Fee Schedule for Asia Pacific Focused Strategy Separately Managed Accounts**

The detailed fee structure is as follows:

<u>Net Assets</u>	<u>Annualized Fee</u>
Up to and including \$10 million (mil)	0.85%
More than \$10 mil but not more than \$25 mil	0.85% on the first \$10 mil and 0.75% on the balance over \$10 mil.
More than \$25 mil but not more than \$50 mil	0.85% on the first \$10 mil; 0.75% on the next \$15 mil; and 0.70% on the balance over \$25 mil
More than \$50 mil but not more than \$75 mil	0.85% on the first \$10 mil; 0.75% on the next \$15 mil; 0.70% on the next \$25 mil; and 0.65% on the balance over \$50 mil.
More than \$75 mil but not more than \$100 mil	0.85% on the first \$10 mil; 0.75% on the next \$15 mil; 0.70% on the next \$25 mil; 0.65% on the next \$25 mil; and 0.60% on the balance over \$75 mil.
More than \$100 mil	0.85% on the first \$10 mil; 0.75% on the next \$15 mil; 0.70% on the next \$25 mil; 0.65% on the next \$25 mil; 0.60% on the next \$25 mil; and 0.55% on balance over \$100 mil.

Australia Strategy – The Australia Strategy objective is to provide a total return over the benchmark over a three to five year investment horizon. The portfolio consists predominantly of Australia-listed REIT and REIT like securities.

The annual charge for the Australia Strategy is negotiable up to 50 basis points per annum. The fee is calculated on the average portfolio and based on the value provided for unit price calculations by the custodian to the client and the Manager at the close of business on Friday, and if Friday is not a business day, then the last preceding business day.

Prime Strategy – The Prime Strategy objective is to provide a total return over the benchmarks over a three to five year investment horizon. The portfolio consists predominantly of prime real estate assets in major global markets in Asia Pacific, Europe and North American regions of the world.

The annual charge for the Prime Strategy is negotiable up to 75 basis points per annum based on factors such as AUM, cumulative investments with the firm product and any special client servicing requirements and other business relationships, among other reasons.

The terms and conditions of the fee structure for all clients and any strategy will be mutually agreed upon prior to entering into an advisory agreement.

**Account Management Fees:** The Firm's practice is to provide invoices to the client, and in some cases to the client's custodian, generally on a quarterly basis using the fee structures described above. Such fees will be typically paid to the Firm by the custodian or other client designee.

**Incentive Fees:** As more fully described in Item 6, it is possible that some clients may pay the Firm performance-based compensation ("Incentive Fees"). If such a fee were present it would be calculated based on a percentage of the net profits of the account(s) on a frequency mutually agreed upon with the client as set forth in the IMA.

Because each incentive fee will be negotiated with each individual client and is impacted by factors such as the strategy and amount of fixed asset management fees, there is no typical percentage to be noted.

In instances in which the Firm's investment management services will be provided primarily or solely utilizing an Incentive Fee based compensation schedule, advisory clients should recognize that such fee arrangements could create an investment conflict. There is an inherent conflict of interest to engage in riskier investments with greater potential profitability.

Clients who elect to terminate their contracts may be charged a performance-based fee based on the performance of the account for the measuring period from the termination date pro-rated from the date on which the performance-based fee was last assessed, unless otherwise stated in the client agreement.

Incentive Fees would be calculated based upon the specific terms of the IMA. As such, we may receive increased compensation with regard to unrealized appreciation as well as unrealized gains in the client's account.



INCENTIVE OR PERFORMANCE-BASED FEES WILL ONLY BE CHARGED IN ACCORDANCE WITH THE PROVISIONS OF RULE 205-3 OF THE INVESTMENT ADVISERS ACT OF 1940 AND/OR APPLICABLE STATE REGULATIONS. THE FEES WILL NOT BE OFFERED TO ANY CLIENT RESIDING IN A STATE IN WHICH SUCH FEES ARE PROHIBITED.

**Limited Negotiability of Advisory Fees:** Although the Firm has established the fee schedule(s) above, we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client mandate, amount of assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the IMA between the Firm and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

## **GENERAL INFORMATION**

**Termination of the Advisory Relationship:** Generally, the IMA may be canceled at any time, typically within 30 and 90 days of the date written notice was provided, by either party, for any reason upon receipt of such request. Upon termination of any account, any unearned fees will be promptly refunded and any earned but unbilled fees will be invoiced.

**Additional Fees and Expenses:** In addition to our advisory fees, clients will also be responsible for the fees and expenses charged by custodians and imposed by broker dealers and/or local exchanges, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

**ERISA Accounts:** The Firm will be deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, the Firm will be subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, the Firm may only charge fees for investment advice about products for which the Firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which the Firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset the Firm's advisory fees.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or dissimilar fees.

**Brokerage Fees or Costs:** Item 12 of this Brochure provides a detailed discussion of the Firm's brokerage practices and related cost or fees.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

### **PERFORMANCE-BASED FEES**

The Firm may enter into an investment management agreement that includes a performance-based fee from the client, in addition to the asset management fee described in Item 5. Such performance-based fee will be calculated in accordance with the investment management agreement which may be based on capital appreciation of the assets of the client and dividends.

Clients should be aware that performance-based fee arrangements may create an incentive for the Firm to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Furthermore, as the Firm may have clients who do not pay performance-based fees, the Firm would have an incentive to favor accounts that do pay such fees because compensation the Firm receives from these clients would be more directly tied to the performance of their accounts. However, inasmuch as all client accounts using the same strategy will be traded in a consistent manner which will be dictated by the model portfolios, the presence of performance fees would not favor such accounts over accounts where such fees are not charged.

## **Item 7 Types of Clients**

The Firm may provide advisory services to registered investment companies, affiliated investment advisers, commingled funds and separate account portfolios managed for business and institutional entities and high net worth individuals. From time to time the Firm may offer advisory services on a per engagement basis. The opportunity to invest in registered investment companies is made available to institutional investors such as pension and profit-sharing plans, trusts, estates or charitable organizations, individuals and other corporations or business entities.

The Firm may serve as the investment manager to open-ended and finite term unit trust(s) and fund(s) formed pursuant to the laws of Hong Kong and/or the laws of other jurisdictions as appropriate and available only to professional investor(s).

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

### **METHODS OF ANALYSIS**

We use the following methods of analysis in formulating our investment advice and/or managing real estate related client assets:

**Fundamental Analysis.** We will attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is

underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Quantitative Analysis.** We will use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis.** We will subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

**Asset Allocation.** Rather than focusing primarily on securities selection, we may attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Risks for all forms of analysis.** Our securities analysis methods will rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we may be alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

**Investment Philosophy.** The Firm will provide investment management and advisory services for institutional investors wishing to invest in publicly traded real estate related companies listed on various Asia-Pacific exchanges.

The Firm will provide investors with an experienced, disciplined and in-depth investment approach which includes fundamental securities analysis. It will seek for its clients those investments which will outperform established benchmarks by purchasing securities of companies with superior growth prospects or securities that are undervalued.

The investment horizon of the Firm is intermediate to long-term. The nature of the underlying assets (real estate) dictates this approach. However, we will constantly reevaluate each position in terms of national and local economic conditions, rents, occupancy levels and competition, and changes in management strategies.

**Sources of Information.** An important part of the Firm's analysis will be in individual property site visits. Properties will be analyzed to determine underlying economic values, the

consistency and quality of cash flow, the potential for growth thorough re-leasing or physical enhancement, and their ability to positively leverage through debt. The Firm will maintain contact with industry sources such as bankers, real estate brokers, property managers, local real estate investors and appraisers to access individual properties and local real estate trends.

## INVESTMENT STRATEGIES

We may use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long-term purchases.** We may purchase securities with the idea of holding them in the client's account for a year or longer. Typically we will employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** When utilizing this strategy, we may purchase securities with the idea of selling them within a relatively short time (typically a year or less). We will do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

## RISK OF LOSS

Investing in real estate investment trust securities is subject to the principal risks summarized below. These risks could adversely affect the investment's value, yield and total return. It is possible to lose money by investing in these securities:

**Stock Market Risk.** The value of the stocks and other securities owned by the investments will fluctuate depending on the performance of the companies that issued them, general market and economic conditions, and investor confidence. The market may also fail to recognize the Adviser's determination of an investment's value or the Adviser may misgauge that value.

**Industry and Sector Risk.** Companies that have similar lines of business are grouped together in broad categories called industries. Certain industries are grouped together in broader categories called sectors. The Firm concentrates its investments in certain real estate

related industries, which may cause the investment's performance to be susceptible to the economic, business or other developments that affect those industries. Real estate industries are particularly sensitive to the following economic factors: decreases in demand due to economic recessions; increases in supply due to overbuilding; interest rate changes; changes in zoning laws; changes in neighborhood values; increases in property taxes; casualty and condemnation losses; and regulatory limitations on rents.

**Portfolio Turnover Risk.** The Firm may sell its investment securities, regardless of the length of time that they have been held, if the Firm determines that it would be in the best interests of the investors to do so. These transactions will increase the investment's "portfolio turnover." High turnover rates generally result in higher brokerage costs to the investors and in higher net taxable gain which may reduce investor returns.

**Currency Risk and Exchange Risk.** Because foreign securities generally are denominated and pay dividends or interest in foreign currencies, the value of the investments in foreign securities as measured in U.S. dollars will be affected favorably or unfavorably by changes in exchange rates. Generally, when the U.S. dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. dollars. Conversely, when the U.S. dollar decreases in value against a foreign currency, a security denominated in that currency gains value because the currency is worth more U.S. dollars. This risk, generally known as "currency risk," means that a stronger U.S. dollar will reduce returns for U.S. investors while a weak U.S. dollar will increase those returns.

**Trading.** As noted above, the Firm may sometimes purchase securities with the idea of selling them very quickly (typically within 30 days or less). We will do this in an attempt to take advantage of our predictions of brief price swings. We will consider our investment strategy longer-term in nature, and trading on a short term basis is not the primary focus.

Utilizing a trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize. Moreover, under those circumstances, we are left with few options:

- having a long-term investment in a security that was designed to be a short-term purchase, or
- the potential of having to taking a loss.

In addition, because this strategy involves more frequent trading than does a longer-term strategy, there will be a resultant increase in brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific

period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for client portfolios.

We may use "covered calls", in which we sell an option on a security clients own. In this strategy, clients receive a fee for making the option available, and the person purchasing the option has the right to buy the security from the clients at an agreed-upon price.

We may use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that clients buy and a call option that clients sell) for the same underlying security. This effectively puts clients on both sides of the market, but with the ability to vary price, time and other factors.

**Volatility of Investment Results.** As with any investment in equity securities, the value of an investment in any of the Firm's strategies and the total return on an investor's investment are subject to the possibility that the subject portfolio of investments will experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect the securities markets generally, such as adverse changes in economic conditions, the general outlook for corporate earnings, interest rates or investor sentiment. The Firm's investments may also lose value because of factors affecting an entire industry or sector, such as increases in production costs, or factors directly related to a specific company, such as decisions made by its management.

**Concentration of Portfolio.** The various strategies executed by the Firm may result in the concentration in a limited number of securities, or one security may constitute a significant percentage of a particular portfolio. A decline in the value of a security or securities in which the portfolio holds a concentrated interest could substantially affect the value of the portfolio overall.

**Risks of Investing in Foreign Securities.** Some of the Firm's strategies may require investing in foreign securities that will be subject to risks not typically associated with domestic securities. Although ADRs and GDRs are alternatives to directly purchasing the underlying securities in their national markets and currencies, they are also subject to many of the risks associated with investing directly in foreign securities. Foreign investments can be riskier and more volatile than investments in U.S. securities as a result of varying custody, brokerage and settlement practices, difficulty in pricing of securities, less public information about issuers of non-U.S. securities, less governmental regulation and supervision of the issuance and trading of securities, the possibility of expropriation or nationalization, adverse political, social or diplomatic developments, the imposition of withholding and other taxes, limitations on the movement of funds between different countries, and difficulties in invoking legal process abroad and enforcing contractual obligations. Changes in the value of foreign currencies can make it more difficult for the portfolio holding such securities to sell its securities and could reduce the value of an investment in the portfolio

**Conflicting Interest of Clients.** The Firm's clients may have conflicting tax and other interests with respect to their investments. The conflicting interests of individual clients may relate to or arise from, among other things, the timing of investments by the Firm and the taxable or tax-

exempt status of individual clients. As a consequence, potential conflicts of interests may arise in connection with decisions made by the Firm, including with respect to the timing of making or disposing of investments, that may be more beneficial for one client than for another client, especially with respect to each client's individual tax situation.

**Strategy May Not Be Successful.** No guarantee or representation can be made that the investment strategy utilized on behalf of any client will be successful, that there will be profits, or that losses will be avoided. There is no assurance that the Firm or its sub-advisers will correctly evaluate the nature and magnitude of the various factors that could affect the prospects of the Firm's trading.

**Potential Loss of Invested Capital.** A client could lose all or substantially all of its investment managed by the Firm. Investments in the previously described strategies are only suitable for investors willing to accept this risk. Prospective investors should carefully consider their portfolio objectives and their need to minimize the risk of large losses in evaluating an investment in the Interests. The past investment performance of the Firm should not be construed as an indication of the future results of an investment managed by the Firm.

**Dependence on Affiliated Advisers and their Officers.** The Firm and any affiliated advisers will have discretionary investment authority over clients' investments. The success of these investments will depend upon the ability of the Firm and any of its affiliated advisers that are utilized to successfully implement their investment strategies. A client's investment performance will be dependent on the services of a limited number of officers of the Firm and its affiliated advisers. If the services of the officers were to become unavailable to the Firm and its affiliated advisers, the result of such a loss of key management personnel could be substantial losses for the Firm's clients

**Real Estate Securities.** The Firm will concentrate its investments in real estate securities. An investment made by the Firm on behalf of its clients will not constitute a diversified investment program. Real estate securities are susceptible to the risks associated with direct ownership of real estate, including, without limitation, declines in property values; increases in property taxes, operating expenses, interest rates or competition; overbuilding; zoning changes; risks related to general and local economic conditions; eminent domain; fluctuations in rental income; changes in neighborhood values; the appeal of properties to tenants; and losses from casualty or condemnation.

Real estate companies may be affected by changes in the value of the underlying property they own and by the quality of credit extended. Such companies also are subject to heavy cash flow dependency, defaults by borrowers, self-liquidation and the possibility of failing to qualify for tax-free pass-through of income under applicable income tax regulations in the jurisdiction of the companies.

REITs may expose the Firm's investments to similar risks associated with direct investment in real estate. REITs are dependent upon specialized management skills, have limited diversification and are generally dependent on their ability to generate cash flow to make distributions to shareholders.

**Credit Risk.** Real estate companies may be highly leveraged and financial covenants may affect the ability of real estate companies to operate effectively. The companies in which the

Firm will invest are subject to risks normally associated with debt financing. In addition, a real estate company's obligation to comply with financial covenants, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict the company's range of operating activity. A real estate company in which the Firm invests, therefore, may be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions which may be beneficial to the operation of the company.

**Environmental Considerations.** In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a real estate company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such real estate company and, as a result, the amount available to make distributions on its shares could be reduced.

**Small and Medium Capitalization Companies.** Even the larger real estate companies in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. This may be especially true for those companies located outside of the United States. There may be less daily trading volume in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Further, smaller company stocks may perform in different cycles than larger company stocks. Accordingly, real estate company shares can be more volatile than, and at times will perform differently from, the shares of "blue chip" companies.

**Exchange Traded Derivatives.** From time to time, the firm or its affiliates may engage in various types of over the counter and exchange traded derivative products when appropriate for certain investment transactions. Some of these may include:

- Futures contracts (both deliverable and cash-settled);
- Futures options (which are options over a futures contract);
- Foreign exchange forwards; and
- Exchange traded options.

**Differences in Client Performance Results.** There may be differences in client performance results for any given strategy based upon the amount of the investments made for each client account and the timing associated with when such investment is made.

**Risk Characteristics of the Trading Strategy.** The risk characteristics for an actual portfolio for any given strategy (standard deviation, beta, Sharpe Ratio, etc.) could vary substantially from those shown for a model analysis. There is no assurance that any desired risk characteristics will actually be achieved for an actual portfolio following any given strategy. This is particularly the case since the Firm may invest in real estate investments that are neither REIT nor REOC interests.



**Risks of Exchange Traded Derivatives and Foreign Exchange Contracts.** Derivatives and foreign exchange contracts have certain risks associated with them. Some of the more common risks are:

- **Liquidity risk management:** the risk that a responsible party may not be able to, or cannot easily, unwind or offset a particular position at or near the previous market price
- **Exchange rate risk:** the risk of losses due to adverse moves in exchange rates
- **Market risk:** Basis risk, a related form of market risk that is relevant to derivative management. This is the risk that a derivative position held will not move in line with an underlying physical position from which its value is derived
- **Counterparty risk:** the risk that a counterparty (the other party with whom a derivative contract is made) fails to perform their contractual obligations (that is, default either in whole or in part) under a contract
- **Operational risk:** the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls will result in material loss

**Reliance on Portfolio Models.** If there is an error in the design of a portfolio model which is not detected, there is a risk that the client accounts would not be traded in accordance with the client's investment objectives.

## **Item 9 Disciplinary Information**

We are 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. The Firm and our management personnel have no reportable disciplinary events to disclose.

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

As described in Item 4, affiliates of the Firm are registered as investment advisers and broker dealers. The Firm's affiliates conduct the following business activities:

Heitman Securities LLC ("HSL") is a registered broker-dealer and member of the Financial Industry Regulatory Authority. Heitman UK Limited ("HUK") is a broker-dealer registered with the United Kingdom's Financial Services Authority. From time to time, the Firm may utilize the services of HSL or HUK as a placement agent for security offerings of real estate Entities. The broker dealers will not engage any transactions involving publicly traded real estate securities.

Heitman Capital Management ("HCM") is an SEC-registered investment adviser and Heitman International LLC ("HI") has been designated as a "relying adviser" based on SEC staff guidance. HCM and HI conduct a worldwide advisory business managing private equity real estate investments for pooled investment vehicles and separate account clients.

Several related persons of Heitman Real Estate Securities LLC ("HRES") and HCM are registered representatives and/or approved persons of these registered broker-dealers. These persons do not receive direct compensation for their broker-dealer or internal affiliated placement agent duties.

Heitman International Real Estate Securities GmbH ("HIRES GmbH"), Heitman International Real Estate Securities Pty Limited ("HIRES Pty"), and HRES are SEC registered investment advisers which manage portfolios composed principally of publicly traded equity securities of real estate investment trusts. HIRES GmbH, HIRES Pty and HRES from time to time will draw upon the market research capabilities of the Firm's parent in making its portfolio selections.

Heitman Financial Services LLC ("HFSL"), a wholly owned subsidiary of Heitman LLC (which is also the Firm's parent entity) and Heitman California Financial Services G.P., Inc. ("HFSL-California"), an affiliate of HFSL, were formed for the purpose of arranging secured and unsecured financing for owners of commercial real estate, the latter solely in connection with real estate located in the State of California. HFSL is licensed as a real estate broker in Illinois and Minnesota. HFSL's and HFSL-California's customer bases consist almost exclusively of entities which are neither clients of the Firm nor affiliates of such clients. It is, however, possible that one or more clients of the Firm owning a commercial real estate project might wish to retain HFSL or HFSL-California to render services on their behalf with respect to the sale and/or financing of that project or an ownership interest therein in return for a negotiated fee.

HLLC provides certain central office support functions such as compliance and anti-money laundering monitoring, human resources, information technology, and other similar enterprise wide activities.

**Other pooled investment vehicle(s):**

As described in Item 4, affiliates of the Firm may utilize limited partnerships or similar pooled investment vehicles referred to as "Heitman sponsored funds" or "funds". Affiliates of the Firm serve as the investment adviser to such funds. As described later in this section, the affiliate solicits clients to invest in these funds through affiliated broker-dealers. Further, unaffiliated third parties, may in some cases, solicit investors to invest in the funds as described in Item 14. Clients are under no obligation to invest in any of these entities or to implement any advisory recommendations.

The Firm and its affiliates and employees may also invest in real estate for their own accounts. Such clients and funds may have investment objectives and policies comparable to those of the affiliate's clients and may be in competition with such clients.

The Heitman REIT Fund ("the Heitman Fund") participates as a mutual fund in the FundVantage Trust ("FundVantage") series of mutual funds. Heitman Real Estate Securities LLC will serve as the investment adviser to the Heitman Fund.

In the event that any of its affiliations present potential conflicts of interest, the Firm has established written policies and procedures for disclosing such conflicts of interests to its clients.

A list of affiliated entities is available on Schedule D of Form ADV, Part 1 at Item 7.B. Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.

Affiliated investment advisers of the Firm are available in Section 7.A. on Schedule D of Form ADV, Part 1. (Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Brochure.)

Payments by the Firm for any solicitation of referral of advisory business are made pursuant to Rule 206(4)-3 of the Advisers Act, as applicable.

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

The Firm has adopted a Code of Ethics (the “Code”), which sets forth standards of business conduct required of all of its officers, managers and employees and requires its employees to maintain integrity and ethical dealings with clients and comply with all applicable laws and regulations of the various jurisdictions in which the Firm operates. The Code includes the establishment and enforcement of policies and procedures reasonably designed to prevent the misuse of material, nonpublic information.

The Firm and its personnel owe a duty of loyalty, fairness, and good faith to its clients and have an obligation to adhere not only to the specific provisions of the Code as well as the general principles that guide the Code. The Firm employees are required to try to avoid situations that have even the appearance of conflict or impropriety.

The Firm designed the Code to ensure that the personal securities transactions, activities, and interests of its employees will not interfere with (i) making decisions in the best interest of clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

The Code includes policies and procedures for the review of quarterly securities transactions reports and initial and annual securities holdings reports submitted by all of the Firm’s access persons and their Family Members. This Code requires the prior approval or prohibition of certain securities transactions. It also contains oversight, enforcement, and recordkeeping provisions.

Further, Access Persons certify on a quarterly basis and Supervised Persons certify on an annual basis that they have complied with the requirements of the Code. In addition, a mandatory firm-wide compliance meeting is conducted annually. The meeting addresses policies applicable to all employees of the Firm such as review of the Code, privacy compliance and anti-money laundering compliance.

It is possible that related person(s) may have an interest or position in certain securities that the Firm recommends to a client.

The Firm’s express policy is that no employee may purchase or sell any security prior to implementing a transaction for an advisory account, which prevents benefits to employee(s) from transactions placed on behalf of advisory accounts.

The Code further includes the Firm’s policy prohibiting the use of material non-public information. It informs all employees that such information cannot be used in any capacity.

A copy of our Code of Ethics is available without charge to our advisory clients and prospective clients. Clients may request a copy by email sent to [dan.leonard@heitman.com](mailto:dan.leonard@heitman.com), or by calling us at 312-425-0410.

As an investment adviser, the Firm has fiduciary responsibilities with respect to each of its clients. This means that the Firm is required to act in each client's best interests and to deal with client assets in such a manner as to benefit the client. Compliance with the Firm's fiduciary duty can be achieved by trying to avoid conflicts of interest and by fully disclosing all material facts concerning any conflict that may arise with respect to any client. The Firm employees are required to try to avoid situations that have even the appearance of conflict or impropriety.

The principals of the Firm are also principals or related persons of affiliated investment advisers and/or limited partnerships and other similar entities that serve in the capacity of or in a similar capacity to General Partner of funds those affiliates of the Firm sponsor. The General Partner has designated the Firm or an affiliate of the Firm as having primary responsibility for investment management and administrative matters, such as accounting, tax and periodic reporting, that pertain to the entities. The Firm and or its affiliates and its managers, officers and employees will devote to the entities as much time as necessary and appropriate to manage the entities' business. However, the Firm and its affiliates may form additional investment funds, enter into other investment advisory relationships, or engage in other business activities, even though such activities may be in competition with the entities and/or may involve substantial time and resources of the Firm and its affiliates. Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of the Firm's management personnel and employees will not be devoted exclusively to the business of the entities but allocated between the businesses of the entities and those of the Firm's other affiliates.

Affiliates of the Firm manage funds that need not register as investment companies under the Investment Company Act of 1940 in reliance upon an exemption available to funds that primarily invest in real estate and certain real estate-related interests. Affiliates of the Firm manage funds on a discretionary basis in accordance with the terms and conditions of the funds' offering and organizational documents.

Certain entities have been established to invest in commingled funds or other real estate related investment ("Investment Entities") formed to develop, acquire, own and/or operate and ultimately sell interests in office, multi-family residential, industrial, specialty sector and/or retail properties located principally in North America, Europe and Asia-Pacific regions ("Firm Related Entities"). The beneficial owners of the Investor Entities in all cases consist of (i) one or more affiliates of a public company, one of whose subsidiaries owns 50% of the Firm's parent entity and (ii) present and former employees of the Firm's parent entity or one of its direct or indirect subsidiaries, one of which is the Firm.

Institutions that are not affiliates of the Firm or any of its affiliates, which in some instances are clients of one or more of the Firm's affiliates, own all of the beneficial interests in Investment Entities, other than those owned by Firm Related Entities. In all cases, each client makes the determination as to whether to invest in any Investment Entity. In addition, the Firm discloses to all co-investing unaffiliated investors, in all cases, the fact that Firm-Related Entities and affiliates beneficially have partial ownership interests in all such Investor Entities.

The Firm and individuals associated with the Firm are prohibited from engaging in principal transactions.

## **Item 12 Brokerage Practices**

### **Selection of Brokers**

Ongoing portfolio management decisions for discretionary accounts will be made by the Firm, including the commission rates at which transactions for client accounts will be effected, with the objective of obtaining the most favorable price and market for the execution of each transaction.

In seeking best execution, the Firm will evaluate a wide range of criteria before placing a trade with a broker or dealer, including the broker's commission rates, execution capability, positioning and distribution capabilities, back office efficiency, ability to handle difficult trades, financial stability and prior performance in serving the Firm and its clients. Once the Firm has considered a broker or dealer's ability to provide favorable priced and best execution, the Firm considers whether the broker can provide certain eligible investment research and/or brokerage services.

### **Soft Dollars**

The Firm as a matter of policy utilizes research, research-related products and other brokerage services on a soft dollar commission or commission sharing basis. The Firm's soft dollar policy is to make a good faith determination of the value of the research products or services in relation to the commissions paid. The Firm maintains soft dollar arrangements for those research products and services which assist the Firm in its investment decision-making process.

The Firm and/or affiliated public securities investment advisers may have agreements with several brokers to obtain in return for directing to such brokers securities transactions for which commissions are paid, various research products and services eligible pursuant to the safe harbor provision of Section 28(e) of the Securities Exchange Act of 1934, as amended. Certain of these agreements provide for "soft dollar" credits whereby the commissions paid by the Firm create "soft dollar" credit which the broker uses to provide research products or services to the Firm. The Firm may also enter into "pooled commission programs" whereby a soft dollar credit pool will be generated from total commission costs. The Firm may then exchange eligible research products and services from credits that accumulate within this pool. The Firm will obtain various eligible services in exchange for soft dollar credits, such as an integrated computer program used for research, portfolio accounting, and client portfolio reports.

To the extent these uses are not all considered strictly research-related (i.e., a "mixed use" product), the Firm will make an appropriate allocation of the cost between that portion which is eligible as research or brokerage services and that portion which is not so qualified. The portion eligible as research or other brokerage will be paid for with discretionary client commissions and the portion, which is not eligible for the safe harbor under Section 28(e) of the Securities Exchange Act of 1934 (the "1934 Act"), will be paid for with Firm's own funds. For any mixed-use products or services, Firm will maintain appropriate records of its reviews and good faith determinations of its reasonable allocations.

Clients should be aware that the Firm may have a conflict between its obligations to obtain the best price and execution of the fewest necessary securities transactions and its desire to acquire research services with commission credits ("soft dollars") from the executing brokers. The Firm may also have an incentive to minimize its allocation of the mixed use category, from the 100% soft dollar category since the portion of mixed use assets allocated to hard dollars increases the firm's expenses in the amount of the hard dollars.

Notwithstanding agreements with brokers to obtain research and brokerage services, the Firm will not direct commissions to brokers in recognition of their having provided research, statistical or other related services in excess of commissions other qualified brokers would have charged for handling comparable transactions. However, subject to the requirement of seeking the best execution, the Firm may, in circumstances in which two or more brokers are in a position to offer comparable prices and execution, give preference to brokers which have provided research, statistical and other related services to the Firm for the benefit of all of its clients. The Firm may even pay more than the lowest available commission rate in return for brokerage and research products and services, so long as the Firm makes a good faith determination that the amount of commission paid is reasonable in comparison to the value of brokerage and research products and services provided.

The brokers with whom the Firm may have such agreements may change from time to time. The Firm may have arrangements with many broker/dealers. The Firm will consider which broker/dealer is best able to execute an order based on the type of order and circumstances surrounding the order. In selecting broker/dealers, and in negotiating commissions on agency transactions, we will consider a number of factors, including but not limited to: the nature of the security being traded; the size and type of the transaction; the nature and character of the markets for the security to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality, including trade anonymity; liquidity; the quality of the execution, clearance and settlement services; the existence of actual or apparent operational problems of any broker or dealer; and financial stability of the broker or dealer. In addition, the Firm may consider the value of research products or services provided by a broker.

Soft Dollar commission rates will not be charged and soft dollar commission credits will not be earned when prohibited by client investment management agreements. The Trading Department will notify the brokers of such restrictions.

Research and brokerage services received from such brokers and dealers covers a wide range of topics and services, including basic U.S. economic data, prices of various government securities, company specific information including the EDGAR filings of securities issuers, economic indices, economic outlook, political environment, demographic and social trends, industry analysis, electronic communication of allocation instructions and trade routing.

Brokerage and research services obtained with soft dollars are not necessarily utilized for the specific account that generated the soft dollars. Some clients, including, but not limited to directed brokerage clients, and clients who restrict the use of soft dollars may benefit from the research and brokerage products obtained from soft dollars despite the fact that their trade commissions may not be used to pay for these services and products. The Firm does not attempt to allocate the relative costs or benefits of brokerage and research services among

clients because it believes that, in the aggregate, the brokerage and research services it receives benefit clients and assists the Firm in fulfilling its overall duties to its clients.

We may use the products or services provided or paid for by broker-dealers in return for execution of securities transactions to service all accounts managed by the Firm and its affiliates, including clients of affiliated advisers, and not just the accounts whose transactions paid for particular products or services. Moreover, it is possible that the accounts whose transactions generate brokerage commissions that are used to pay for products or services may not benefit in any way from them. However, we expect that each client will benefit overall by this practice because each receives the benefit of research services that it might not otherwise receive. To the extent we use broker-dealers who generate soft dollar commissions in order to supply us with research; this constitutes a potential conflict of interest since the Firm might be incentivized to utilize those broker-dealers in order to minimize research expenses for which it would otherwise be responsible.

The Firm may supply proprietary research to the Heitman LLC Client Service - Marketing and Research groups (collectively, the "Support Group") if the Support Group uses the proprietary research solely to assist the Firm in carrying out its investment decision-making responsibilities for its clients. Investment decision-making responsibilities refers to the quantitative and qualitative processes and related tools used by the Firm in rendering investment advice to its clients, including but not limited to financial analysis, trading and risk analysis, securities selection, asset allocation, and suitability analysis. As used here, 'clients' refers to the entity, including but not limited to, a natural person, investment fund, or separate account, designated to receive benefits, including income, from the brokerage generated through security transactions.

Heitman may use the products or services provided or paid for by broker-dealers in return for execution of securities transactions to service all accounts managed by any members of the Firm, and not just the accounts whose transactions paid for particular products or services.

The Soft Dollar policy will be reviewed at least annually. The Firm estimates that 10-15% of commissions will be tied to soft dollar relationships. Research and brokerage services received from soft dollar relationships covers a wide range of topics and services, including basic economic data, prices of various government securities, company specific information including filings of securities issuers, economic indices, economic outlook, political environment, demographic and social trends, industry analysis, Bloomberg, stock exchange quotes, electronic communication of allocation instructions and trade routing, in addition to other research used in the investment process.

### **Directed Brokerage**

The Firm will consider requests by clients to direct brokerage transactions to a particular broker selected by the client. Although the client may in such circumstances receive products and services from the brokers which benefit the client's account, the Firm cannot assure the client that it will receive brokerage commissions equally as competitive as the commission rates the Firm has negotiated with its brokers.

Moreover, the client may forego any benefit from savings on execution costs that the Firm has obtained for its other clients due, for example, to such factors as the ability to negotiate lower rates and the volume of transactions. In such instance, the client directing the brokerage may

receive different prices on executions in the same security for the same transaction effected through other brokers. Even if the Firm has limited discretion in selecting brokers for these clients, the Firm will monitor best execution to confirm rates are reasonable and will notify clients if they could be paying less by not directing brokerage.

### **Global Strategy Accounts**

For certain Global Strategy accounts, the Firm has retained affiliated advisers to make the investment decisions with respect to publicly traded real estate securities principally in North America and Europe. The Firm has also delegated brokerage discretion for certain Global Strategy accounts to the affiliated advisers, and, therefore, the affiliated advisers have the discretionary authority to determine which broker-dealers will be used when purchasing and selling principally North American and European securities on behalf of Global Strategy accounts. For these Global Strategy accounts, the Firm retains investment discretion and brokerage delegation responsibilities.

The Firm's North American and European policies on Investment and Brokerage Discretion are comparable to that of the Firm.

In selecting brokers to effect purchase and sale transactions, affiliated advisers take into consideration a number of factors, including the overall best execution results to a client, the broker's commissions, financial strength, stability and trade efficiency.

For trades executed in a currency other than the account's base currency a Spot FX transaction is necessary to facilitate trade settlement. We will generally use an unaffiliated third party to execute those Spot FX transactions.

### **Order Execution and Allocation**

The Firm often will purchase and sell the same security at the same price and time for more than one client because (i) the Firm typically makes similar trade recommendations for similar strategies that it manages, (ii) the Firm only recommends a limited number of real estate related securities, and (iii) numerous clients have similar investment objectives and similar portfolios. The Firm will generally allocate orders among participating accounts on a pro rata average price basis. In instances when an order is not completely executed on a given day, the Firm will generally allocate the purchase and sale randomly among the client accounts within the order. Consistent with its best execution obligations and the terms of its investment advisory agreements, the Firm will typically aggregate or 'bunch' multiple client orders for the purchase and sale of the same security and allocate such transactions as previously described with each participating client's proportionate share of such order reflecting the average price paid or received with respect to the total order placed for that day. Aggregate or bunch transactions may result in better prices, including lower commission costs and/or better execution for larger orders than single orders with smaller volumes.

### **Trade Allocation**

The Firm has implemented compliance policies and procedures to regularly test client accounts to ascertain whether certain accounts are being treated unfairly. For example, the trader and/or Senior Compliance Officer ("SCO"; or the SCO's designee) will regularly review partial trade allocations to confirm that one category of clients is not being advantaged or disadvantaged, and the portfolio manager(s) will review performance dispersion, which may occur over time among accounts with a similar strategy that utilize a rotational allocation



method. Exceptions to the rotational allocation method will be documented by the SCO (or the SCO's designee). Proprietary accounts and accounts that have a performance-based fee will be treated the same as other client accounts when trade allocations are made.

IPOs and secondary offerings ("Offerings") of securities frequently are of limited size and limited availability. The Offerings may also become "hot issues" which are offerings that trade at a premium above the initial offering price.

In the event the Firm participates in an Offering, the Firm's policy and practice is to allocate shares in the Offering fairly and equitably on an overall basis among clients eligible for participation according to a specific and consistent basis so as not to advantage any firm, personal or related account and so as not to favor or disfavor any client, or group of clients, over any other.

The Firm will not participate in IPOs or secondary offerings for accounts not traded by Heitman.

### **Global Strategy Trade Allocation**

Provided each client's investment guidelines are adhered to, affiliated advisers will aggregate similar purchase or sale orders with other client orders so long as such aggregation cannot be reasonably foreseen to result in no harm to any client. Aggregation may result in obtaining advantageous selling or purchase prices, brokerage commissions and other expenses and beneficial timing of transactions. Generally, affiliated advisers allocate orders on a pro rata basis.

For client accounts which the Firm has delegated investment and brokerage discretion to the affiliated advisers, the Firm will periodically review the affiliated advisers' trading policies and procedures and trade activities with respect to those client accounts.

## **Item 13 Review of Accounts**

### **PORTFOLIO MANAGEMENT SERVICES**

**Reviews:** Both before and after the Firm begins to manage an account, it will utilize strategies for the long-term growth of capital and the generation of income pursuant to the investment objectives as noted in the IMA. Guidelines are established by the Firm based on liquidity, risk and investment potential with respect to price levels and the number of shares purchased or sold. For portfolio management purposes, and to determine transaction strategy based on current market conditions, each discretionary client's account will be reviewed regularly.

In addition to personnel within the Client Services and Marketing Group, responsibility for communication with the client will rest with the Firm's employees and officers assigned to such accounts.

**Reports:** In addition to the statements and confirmations of transactions that Portfolio Management Services clients may receive from their custodians, the Firm will provide monthly and/or quarterly reports summarizing account performance, balances and holdings pursuant to the obligations set forth in each client's investment management agreement. Upon request, the Firm will provide more frequent reports to discretionary separate account clients.

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

### **CLIENT REFERRALS**

The Firm may engage a consultant to assist in obtaining assignments with clients. In return for these services, the Firm (and not the client) will compensate the consultant out of its investment management fee. The Firm discloses such referral arrangements, should they exist, to our clients.

Whenever the Firm pays a referral fee, it requires the solicitor of this fee to provide the prospective client with a copy of this Brochure and a separate disclosure statement that includes the following information:

- the solicitor's name and relationship with the Firm;
- the fact that the Firm pays solicitor a referral fee;
- the amount of the fee; and
- whether the Firm will charge the client an increase above its normal fees to compensate the solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

HLLC has entered into an agreement with Willowbrae House, an investment management advocacy and consulting firm, for the purpose of distributing Heitman products and marketing Heitman's investment management capabilities to Australian and New Zealand institutional capital. David Twiss, a Director of Willowbrae, is directly responsible for providing the above described services to HLLC. As such, Willowbrae and Mr. Twiss are acting in the role of placement agent as a result of their commercial objective to attract capital to any/all of HLLC's products that fit with Australian and New Zealand investors' goals and objectives. There is no economic impact to those clients obtained with the assistance of Willowbrae and/or Mr. Twiss.

It is the Firm's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

In addition to the periodic statements that clients may receive directly from their custodians, we will also send account statements directly to our clients on a monthly and/or quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

The Firm will not have actual or constructive custody of securities or cash.

## **Item 16 Investment Discretion**

Clients will generally engage the Firm to provide discretionary asset management services, in

which case we will place trades in a client's account without contacting the client for their permission prior to each trade.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell
- determine the broker and price and commission related to the security bought or sold

Clients will generally give us discretionary authority when they sign the investment management agreement with the Firm, and may limit this authority by giving us additional written instructions. Clients may also change/amend such limitations by once again providing us with written instructions. The Firm will not begin the management of client funds without a written investment management agreement.

## **Item 17 Voting Client Securities**

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting the individual designated on the first page of this Brochure. In addition, clients may request, in writing, information on how proxies for his/her shares were voted. If any client makes such a request, we will promptly provide such information.

With respect to ERISA accounts, we will vote proxies unless the investment management agreement specifically requests that they be forwarded to the client for processing. To direct us to vote a proxy in a particular manner, clients should contact the individual designated on the first page of this Brochure.

The Firm will utilize the services of an independent unaffiliated proxy voting recommendation firm. The proxy firm is responsible for: notifying the Firm in advance of the shareholder meeting at which the proxies will be voted; providing the appropriate proxies to be voted; providing independent research on corporate governance, proxy and corporate responsibility issues; recommending actions with respect to proxies which are always deemed by the proxy firm to be in the best interests of the shareholders; and maintaining records of proxy statement received and votes cast. The Firm's policy is to follow the proxy firm's recommendations unless compelling reasons not to do so are identified and approved by the Firm's Proxy Voting Committee.

Clients can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. Clients can also instruct us on how to cast their vote in a particular proxy contest by contacting us at 312-425-0410.

## **Item 18 Financial Information**

We do not require or solicit payment of fees in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that will maintain discretionary authority for client accounts, we are also

required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. HIRES HK has no such additional financial circumstances to report.

HIRES HK has not been the subject of a bankruptcy petition.