

Part 2A of Form ADV: *Firm Brochure*



# CLARION PARTNERS

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March 31, 2014

This brochure provides information about the qualifications and business practices of Clarion Partners, LLC ("Clarion"). If you have any questions about the contents of this brochure, please contact Clarion's Legal and Compliance Department at 1-212-883-2500. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Clarion is a registered investment adviser. Registration as an investment adviser does not imply any certain level of skill or training. Additional information about Clarion also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 – MATERIAL CHANGES

This Firm Brochure, dated March 31, 2014, provides you with a summary of Clarion Partners, LLC ("Clarion", "the Company" or the "Registrant") advisory services and fees, professionals, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item is used to provide our clients and investors with a summary of new and/or updated information.

Clarion Partners Securities, LLC ("CPS") is wholly-owned by Clarion and is a member of the Financial Industry Regulatory Authority ("FINRA"). CPS provides marketing and administrative support for Clarion. CPS became a FINRA member firm in 2013. As a result, Clarion no longer utilizes Foreside Financial Group, LLC ("Foreside") for activities requiring a broker-dealer. Clarion Partners Europe, Ltd. ("CPE"), an entity regulated by the Financial Conduct Authority ("FCA") of the UK, provides marketing, operational, and administrative support to Clarion. CPE registered with the FCA in 2013.

In 2013, investors in Clarion Partners Property Trust Inc. (CPPT), a publicly registered, non-exchange-listed Maryland corporation advised by CPT Advisors, LLC, a direct wholly owned subsidiary of Clarion Partners, were redeemed for their shares. The shares of CPPT were subsequently de-registered and CPPT was liquidated and wound-down.

You may request the most recent version of this brochure by contacting Clarion's Client Capital Management Department, 212-883-2500.

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#### ITEM 4 – ADVISORY BUSINESS

Clarion Partners, LLC (“Clarion”, “the Company” or the “Registrant”) and its affiliates, the Managing Members and General Partners listed in Item 10 (collectively, “Clarion”, “us,” or “we”) provide investment advisory and other services to institutional investors, specializing in sourcing, underwriting and managing real estate investments.

The Registrant was originally founded as Jones Lang Wootton Realty Advisors in 1982. From 1982-1996, Clarion operated as Jones Lang Wootton Realty Advisors, a venture between management and the UK-based brokerage firm, Jones Lang Wootton (“JLW”). In 1996, management bought JLW’s interest and owned Clarion privately until its sale to ING Real Estate Investment Management, the global real estate unit of ING Groep, N.V. (“ING”), in 1998. Partnering with ING allowed Clarion to increase its presence outside of the U.S. and significantly expand its platform. Clarion was wholly owned by ING from 1998 to 2011. When ING made the decision to divest itself of its real estate investment management division, Clarion seized the opportunity to return to management-led ownership. In June 2011, Clarion completed a management buyout of its private market real estate investment platform with an affiliate of Lightyear Capital (“Lightyear”) as its financial partner. Lightyear is a private equity firm specializing in the financial services industry. (Clarion falls under the legal entity Clarion Partners Holdings, LLC or “Holdings”).

As of December 31, 2013, the Registrant manages approximately \$29,973,400,000 in assets on behalf of various open-end and closed-end private comingled investment vehicles (collectively, the “Funds”) and separately managed account (“SMA”) clients (collectively, the “SMA Clients”), including approximately \$16,895,400,000 billion on a discretionary basis and approximately \$13,078,000,000 billion on a non-discretionary basis. In accordance with applicable exemptions/exceptions in the Securities Act of 1933 and the Investment Company Act of 1940, these Funds are available only to Accredited Investors and Qualified Purchasers.

Clarion offers a range of private equity investments in strategies across the risk/return spectrum using both Funds and tailored SMAs. For each Fund, Clarion pursues an investment strategy, be it core, core-plus, value-added, or opportunistic. These portfolios are generally diversified, institutional quality real estate assets and related investments within the United States, Canada, Mexico and South America. For each SMA Client, Clarion pursues an investment strategy that is customized and based on the investment objectives of such SMA Client. SMAs provide clients with a personalized approach to investing that includes direct ownership of individual properties and/or securities as well as opportunities for portfolio customization. SMA Clients include pension and profit sharing plans, endowments, foundations, sovereign wealth funds, corporations, business entities, local and state governments and other institutional investors. Underlying investors in Funds include similar institutional investors as well as high net worth investors.

When selecting and managing assets for its clients, Clarion remains subject to the investment guidelines and restrictions included in either (i) the offering memorandum (the “PPM”) and organizational documents of each Fund; or (ii) the investment management agreement (“IMA”) of each SMA advisory relationship.

## ITEM 5 – FEES AND COMPENSATION

With respect to all types of clients, we are compensated with an asset management fee (a percentage of assets under management). Clarion may also charge certain clients acquisition or disposition fees (for the acquisition or disposition of investment properties) as well as incentive fees (for reaching a target return or a hurdle on assets under management).

**Asset Management Fee.** The asset management fee schedule for investment supervisory services is earned as either:

- (a) a percentage of assets under management, ranging from 0.25% to 1.50%, depending on account size and the client's circumstances; or
- (b) a percentage of net operating income ranging from 0.67% to 7%, depending on cumulative investment dollar thresholds, with or without minimum/maximum fee limits, as well as other client specific criteria.

SMA Clients and Funds generally pay fees in arrears at the end of each calendar quarter based on the value of assets or net operating income during the previous quarter.

**Acquisition and Disposition Fees.** Acquisition fees may be earned by Clarion for the acquisition of each investment property. These fees range from 0.50% to 1.50% of the purchase price of the asset and are governed by the client's investment management agreement. Disposition fees, when applicable, may be fixed fees on a per transaction basis, or may also be negotiated with clients. Generally disposition fees range from 0.06% - 1.25% of the disposition price or sales proceeds or other price based on the agreement with the Fund or the client.

**Performance-Based Fees.** A performance-based fee may be earned by Clarion as a periodic fee based on a calculation of a specified return of real estate investments under management above a benchmark. Such fees are calculated and governed by the client's investment management agreement or the specific Fund's PPM and governing documents.

**Other Fees.** Fees may be earned by Clarion for other services provided to the Funds or SMA Clients. These fees may be earned for consulting, financing, property management, leasing, property development, or sales.

Investors in certain Funds may pay a cash management fee in lieu of an asset management fee for managing the liquid assets of the Fund. Cash management fees, if applicable, are outlined in the Fund's PPM.

Fees for the Funds are outlined in the Fund's PPM and governing documents. SMA Client fees are negotiated. Factors Clarion may consider in negotiating fees include: the amount or complexity of services required, the type of assets under management, the amount of assets under management, a client's prior relationship with Clarion, whether we are acting in a discretionary or non-discretionary capacity, and the extent of reporting or other administrative services required. In general, an investment management agreement for an SMA may be canceled by either party at any time and for any reason upon receipt of 30 days written notice. Upon termination of an account, any unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. Fund investors can redeem their interest in a Fund as outlined in the Fund's PPM.

For SMAs fees are either billed directly to the client, deducted from the client's account, or reduce client distributions, as agreed upon with each client. For investors in the Funds fees are deducted as set forth the PPM and governing documents.

*Additional Expenses:*

In addition to the fees described above, Funds and SMA Clients must also generally bear all brokerage commissions, transaction fees, custodial fees and other related costs and expenses. Please refer to Item 12 for additional information regarding the factors we consider in selecting brokers for client transactions and in determining the reasonableness of their compensation.

Additionally, Funds may also bear certain organizational and offering expenses, and operating expenses. Organizational and offering expenses are often subject to a cap, and may include out-of-pocket and internal expenses of Clarion and its agents incurred in the formation of a Fund. Operating expenses generally include certain legal and accounting fees and expenses, expenses of investor and Advisory Council meetings, certain insurance and indemnification expenses, certain valuation and appraisal expenses, interest on Fund indebtedness and taxation expenses. Further detail on the additional expenses a Fund will bear are outlined in the Fund's PPM and governing documents.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As noted in Item 5 above, Clarion may earn performance-based fees, which may be calculated in part on a percentage of net investment income, cash flow or a percentage of return of a real property under management above a benchmark or preferred return hurdle.

Such performance-based fees may also be calculated based on a share of capital appreciation of the assets of the client. To qualify for a performance-based fee arrangement, a SMA Client or Fund investor (also known as shareholder) must either demonstrate a net worth of at least \$2,000,000 or must have at least \$1,000,000 under management immediately after entering into a management agreement with us. In addition, a SMA Client or Fund investor may be subject to a minimum investment amount. Please refer to Item 7 for additional information regarding minimum investment amounts. Performance-based fees are negotiable and are described in either the PPM or the SMA Client's IMA.

All performance-based fees are calculated and paid in accordance with Section 205 and Rule 205-3 under the Investment Advisers Act of 1940 ("Advisers Act"). Clarion reserves the ability to

adopt different fee structures for Funds or SMAs.

Clients and investors should be aware that performance-based fee arrangements may create an incentive for Clarion to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Furthermore, as we also have clients who do not pay performance-based fees, we may have an incentive to allocate particular investments to accounts that do pay such fees because compensation we receive from these clients is directly tied to the performance of their accounts. All investment recommendations are subject to each portfolio's investment guidelines, be it a fund or SMA.

To address these conflicts, our policies and procedures seek to ensure that investments are allocated to all clients fairly and equitably on an overall basis. All potential investments are submitted by the local acquisition manager to Clarion's Investment Committee (the "Investment Committee"), which meets regularly to determine whether each investment meets Clarion's overall criteria. For investments meeting Clarion's criteria, the Investment Committee then considers each investment's characteristics and its suitability for clients. If a portfolio manager is interested in the investment and the investment is clearly suitable for only one client, it is assigned accordingly pursuant to the approval of the Chief Investment Officer. If an investment, on balance, is equally suitable to more than one client, and more than one portfolio manager has indicated interest in the investment, it is assigned to the client which has waited the longest to be assigned a new investment. Please refer to Item 12 for additional information regarding the Allocation Policy. Refer to Item 8 of this brochure for the review and supervision of investments by the Clarion's Investment Committee, Executive Board and a Fund's Advisory Council.

## ITEM 7 – TYPES OF CLIENTS

Clarion provides advisory services to pension and profit sharing plans, endowments, foundations, sovereign wealth funds, corporations, business entities, local and state governments and other institutional investors. Underlying investors in Funds include similar institutional investors as well as high net worth investors.

To establish or maintain an investment advisory account with us, we generally require a minimum portfolio amount of \$100,000,000 for each SMA Client. For Funds the minimum investment amounts vary and are outlined in the Fund's PPM, but is subject to waiver by the Fund's general partner or Clarion. Although certain feeder funds may have lower minimum investment amounts, the minimum investment amount for Funds generally ranges from \$2,500,000 to \$10,000,000. Certain Funds that are closed-end vehicles that are not open to new investments may have higher minimum investment amounts as outlined in their respective PPMs. Account minimums may be negotiated. Clarion may change the minimum requirements and minimum requirements may change for future products offerings.

Investments in a Fund may be recommended to advisory clients for whom these types of investments may be more suitable than would a SMA managed by Clarion. Clients interested in investing in a Fund should refer to the Fund's PPM for more information specific to the Fund.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### ***Investment Strategies***

Each SMA and Fund portfolio is actively managed using proprietary research to evaluate real estate cycles, national and regional market fundamentals and market opportunities. Clarion Funds and SMAs may acquire 100% ownership in a property, as well as partnership interests and investments in other real estate related assets, including interests in companies and joint ventures that hold real estate assets directly or indirectly, where we believe such an investment would be consistent with the respective Fund's investment strategy and performance objectives. Clarion assists in purchasing the ownership interests in properties for SMA Clients. SMA Clients typically own property assets directly in their account.

Within its various investment portfolios on behalf of both Funds and SMA Clients, Clarion employs a range of single asset vehicles and other holding structures such as corporations, business trusts, limited liability companies and other corporate entities (including such entities as may be qualified as real estate investment trusts for federal income tax purposes) and limited partnerships and other forms of joint ventures.

Across its Funds and SMA Client accounts, Clarion primarily invests in the five major property types (office, retail, industrial, hotel and multifamily residential) pursuant to the portfolio's various strategies and investment objectives.

Clarion invests in private equity real estate across the risk/return spectrum:

**Core Portfolios** – *low to moderate risk*: Invests in operating and substantially leased properties in larger markets; diversified across the five major property types: office, retail, industrial, multifamily residential and hotel. Modest financial leverage may be used to potentially enhance returns. Income typically generates approximately two-thirds of total portfolio return.

**Core-Plus/Value-Added Portfolios** – *moderate to higher risk*: Invests in properties that typically require a capital investment for re-positioning, re-leasing or enhancement. With these properties financial leverage is generally used to enhance returns. Total return over the holding period is generally divided equally between income and appreciation.

**Opportunistic Portfolios** – *higher risk*: Generally invests in new developments, less-traditional property sectors, recapitalizations, entities or other structures. These are highly leveraged and have significant financial leverage risk.

Every strategy pursued by Clarion on behalf of any Fund entails a significant degree of risk and all investors in Funds are advised to pay special attention to the sections of the Fund's PPM that discuss risk factors, conflicts of interest and other investment considerations. While Clarion works with SMA Clients to develop customized guidelines and restrictions with respect to their respective investment programs as outlined in the IMA, each Fund investor is encouraged to invest only in the Fund or Funds pursuing investment objectives suitable for such investor since the management of each Fund is not customized to any one investor's guidelines or restrictions. Investors are additionally encouraged to seek their own individual tax and legal advice regarding



an investment in the Fund before making an investment decision.

### ***Clarion's Investment Methodology***

For each potential long-term property investment, Clarion analyzes a number of factors, that may include: gross revenues, with attention paid to the quality and safety of such revenues, past and expected vacancy rates, associated market conditions, past and projected expenses, the use and physical condition of the property, the existing and potential lease structure of the property, the prospects for future sale, the projected investment return, the debt service coverage ratio, mortgage terms and bond structure and the impact on portfolio risk and return.

On an ongoing basis, our portfolio managers in conjunction with their management teams seek to develop and implement a portfolio-appropriate strategy to manage portfolio risk. In addition, they are responsible for reviewing the operational matters, capital improvement programs, budgets, business plans, leases and financial statements of each potential investment. The portfolio managers are responsible for the preparation of an annual investment plan and a strategic portfolio overview. In addition, Clarion's portfolio management teams and third party appraisal firms conduct periodic internal and external valuations of property investments.

Each Fund has formed or is required to form an advisory council ("Advisory Council"), which is expected to consist of several representatives of unaffiliated investors. The Fund's general partner (a "General Partner") has the right to consult with the Advisory Council, if any, regarding changes in a Fund's investment strategy and guidelines, valuation policy, audited financial statements, conflicts of interest and other matters with respect to the Fund. A Fund's Advisory Council may be asked to consent to transactions on behalf of the Fund involving a conflict of interest between the Fund and the General Partner or its affiliates, or as may be necessary pursuant to the Advisers Act.

The Investment Committee approves each discreet investment (both acquisitions and dispositions) for each Fund and SMA, to insure the transaction is priced accordingly and is consistent with the longer term investment strategy of the Fund or Client.

Each Fund or SMA has a Peer Review Group, comprised of several senior executives that is responsible for the review and approval of a Fund or SMA Investment Plan, including any proposed change in investment strategy. The Peer Review Groups also conduct periodic reviews of investment performance relative to stated goals and benchmarks.

Any material changes to a Fund or SMA investment strategy requires the approval from Clarion's Executive Board. The Executive Board is comprised of six members who are responsible for leading and managing Clarion. The Executive Board is responsible for defining business strategy and achieving operational results. Through the Executive Board, Clarion maintains transparent lines of communication with the Board of Directors of Clarion Partners Holdings, LLC, which consists of both Clarion and Lightyear senior executives. The Board of Directors of Holdings has a duty of stewardship and regularly assesses and monitors Clarion's performance.

In addition, Clarion's Operating Committee develops and recommends across Funds and SMAs, for adoption by the Clarion Executive Board, the financial plan for the company and monitors performance against the associated benchmarks and budgets. Members meet regularly to

formally review the relevant monthly status of revenue and expense performance, marketing initiatives, headcount management, operational efficiencies and specific organizational initiatives for which senior executive input is required. The Operating Committee also focuses on resource allocation to further the business goals of the Company.

### ***Related Risks***

All of our strategies involve the risk of loss that clients should be prepared to bear. In addition, the investment strategies described above may also involve the following risks:

#### ***Risks Related to Fund Investments***

The purchase of an interest in a Fund entails certain risks that investors should consider before making a decision to invest in a Fund. There can be no assurance that an investment in a Fund will be profitable or, if it is profitable, that any particular yield or rate of return will be obtained or other investment objective will be realized. An investor should only invest in a Fund as part of an overall investment strategy and only if the investor is able to withstand a total loss of its investment in the Fund. Funds could be subject to material risks that are not described herein. Additional risks regarding Funds are disclosed in the PPM of each Fund. We encourage investors to carefully review the full description of risk factors presented in their Fund's PPM and accompanying subscription documents.

#### ***Risks Related to Real Estate Investments***

Real estate investments are long-term investment vehicles that are subject to market risk, including the potential loss of principal invested. Real estate values are affected by a number of factors, including: (i) changes in the general economic climate; (ii) local conditions (such as an oversupply of space or a reduction in demand for space); (iii) the quality and philosophy of management of properties; (iv) competition based on rental rates; (v) attractiveness and location of properties; (vi) financial condition of tenants, buyers and sellers of properties; (vii) quality of maintenance, insurance and management services; (viii) changes in operating costs; (ix) changes in interest rates and the availability of leverage which may render the sale or refinancing of properties difficult or impracticable; (x) uninsured losses or delays from casualties or condemnation; (xi) government regulations (including those governing usage, improvements, zoning and taxes); (xii) potential liability under changing environmental and other laws; (xiii) structural or property level latent defects; (xiv) acts of God; and (xv) other factors beyond the control of Clarion. Investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property) could also create risks of successor liability.

#### ***Risk Related to the Use of Leverage***

To the extent the investments are leveraged, there will be additional risks incident to borrowing funds. These include risks associated with changes in the general economic climate, changes in the overall real estate market, local real estate conditions, the financial condition of tenants, buyers and sellers of properties, supply of or demand for competing properties in an area, technological innovations that dramatically alter space and demand requirements, the availability

of financing, changes in interest rates, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks and government regulations.

## ITEM 9 – DISCIPLINARY INFORMATION

Form ADV Part 2 requires investment advisers such as Clarion to disclose legal or disciplinary events involving the firm or our partners, officers, or principals that are material to your evaluation of our advisory business or the integrity of our management. At this time, we have no information to report that is applicable to this item.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Clarion has other financial industry activities and affiliations.

Affiliates of Clarion serve as general partners (or otherwise manage) the Funds, which are sponsored by Clarion. Some of Clarion's associates are registered representatives of a broker-dealer affiliate of Clarion. The affiliate, Clarion Partners Securities, LLC, is wholly owned by Clarion and is a member of the Financial Industry Regulatory Authority ("FINRA"). Clarion Partners Securities, LLC provides marketing and administrative support to Clarion. Additionally, Clarion Partners Europe, Ltd ("CPE"), an entity that is wholly owned by Clarion, is regulated by the Financial Conduct Authority of the UK. CPE provides marketing, operational and administrative support to Clarion in Europe.

## ITEM 11 – CODE OF ETHICS

### *Code of Ethics*

Clarion has adopted a Code of Ethics in accordance with Rule 204A-1 under the Advisers Act that sets forth ethical standards of business conduct that Clarion requires of its employees, including compliance with applicable federal securities laws. This Code of Ethics is intended to reflect fiduciary principles that govern the conduct of Clarion employees and its supervised persons in those situations where Clarion acts as an investment adviser as defined under the Advisers Act in providing investment advice to clients. It consists of an outline of policies regarding several key areas: standards of conduct and compliance with laws, rules and regulation, protection of material non-public information, personal securities trading and outside business activities. Additional firm-wide policies and procedures are included in the Clarion Compliance Manual.

### *Participation or Interest in Client Transactions*

Clarion may at times recommend to its advisory clients that it buy or sell securities or investment products in which Clarion or a related person has some financial interest (in such circumstances, Clarion or the related person typically has less than a two percent interest in the applicable investment product). Clarion discloses such financial interest to the client, consistent with Clarion's duties to its clients as well as applicable laws.

Clarion or its affiliates may co-invest with clients in direct real estate investments or real

estate joint venture investments managed for clients when such co-investment is a requirement under applicable investment management agreements. Clarion or its affiliates may also co-invest in commingled real estate funds Clarion manages. Any such investment is disclosed to the other investors.

#### *Personal Securities Trading*

Clarion's Code of Ethics includes personal securities trading policies and procedures, and insider trading policies and procedures. The Code of Ethics requires supervised persons to: (1) report personal securities transactions on at least a quarterly basis, (2) provide a detailed summary of certain holdings and securities accounts (both upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest, and (3) pre-clear acquisitions of securities in IPOs or private placements.

All employees receive annual training regarding Clarion's personal securities trading policies and procedures. In addition, employees must annually confirm that they have read and understand the Code of Ethics, including personal securities trading.

### ITEM 12 – BROKERAGE PRACTICES

#### *General Brokerage Practices*

Due to the nature of the investments the Funds and SMAs make, broker-dealers are generally not used for transactions. However, when executing transactions on behalf of the Funds or SMAs through a broker or dealer Clarion has the investment discretion (under the IMA or PPM agreements) to buy or sell securities, to determine the amount of securities to be bought or sold, and to determine which broker or dealer to be used to execute any securities transaction.

On behalf of clients, Clarion may engage services providers and brokers for investment sales, property management, leasing, debt financing and other services. Clarion has the investment discretion (under the IMA or PPM agreements) to hire third party service providers, including real estate brokers, and to negotiate the commissions paid to those brokers. In recognition of our responsibilities as a fiduciary and in keeping with our level of operational practices and efforts to maximize the value of client accounts, Clarion's primary objective is to seek to obtain the best possible execution of real estate investment acquisitions or dispositions for our client accounts considering all circumstances. In engaging brokers and service providers Clarion considers a number of factors to select and evaluate a service provider including, but not limited to: execution capability, commission rates, knowledge of markets, experience, reputation, current market conditions and marketing support.

#### *Research and Other Soft Dollar Benefits*

It is Clarion's policy not to use research or services ("soft dollars") provided by real estate brokers or other service providers as part of its investment decisions. Clarion generally does not accept or use soft dollars.

#### *Trade Aggregation*

Clarion does not aggregate trades of real estate investments/securities.

### *Allocation of Investment Opportunities*

Clarion and its affiliates provide investment advice and perform related services for Funds and SMAs which have investment strategies which are similar or overlap with one another. Clarion generally allocates investment opportunities among active Funds and SMAs to optimize the investment objectives of each, recognizing that, on occasion, an investment may be made by more than one Fund or SMA. In the event that an investment is clearly suitable for only one Fund or SMA, such investment is allocated to such Fund or SMA. In the event that Clarion identifies a potential investment that might be suitable for one or more of its Funds or SMAs, the decision as to the suitability of the investment for a particular Fund or SMA will be based upon several factors. If, in the judgment of Clarion, an investment is equally suitable for more than one Fund or SMA, priority will be given to the Fund or SMA that has waited the longest period of time since last being offered an investment (whether or not such Fund or SMA accepted such investment).

### ITEM 13 – REVIEW OF ACCOUNTS

Clarion monitors portfolios created for its clients by performing supervisory management functions which include, but are not limited to, the following:

- determining the desirability of an investment for a client;
- selecting and supervising of property managers, leasing agents, attorneys, lenders, insurers, builders, and any other relationship deemed necessary;
- preparing all necessary reports and documents that may be required by the contractual arrangements with clients;
- determining the timing and execution of sale;
- monitoring the performance and suitability of each investment; and
- obtaining periodic independent appraisals of the properties in the client's portfolio.

These accounts are reviewed by the portfolio management teams under supervision of the portfolio manager as well as the Investment Committee. Refer to Item 8 of this brochure for the review and supervision of investments by the Clarion's Investment Committee and Executive Board.

Clarion submits regular written reports to the SMA Clients and the Fund investors regarding the status and performance of their investments. The frequency of the reports is typically quarterly. Reports may be more frequent and content may vary depending on the terms of the SMA Client's investment management agreement or the Fund's PPM. These reports are reviewed by the portfolio management teams under supervision of the portfolio managers.

### ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

Clarion may from time to time compensate, either directly or indirectly, third parties for client referrals. Should Clarion use a third party placement agent, compensation arrangements will be made in accordance with Rule 206(4)-3 of the Advisers Act.

## ITEM 15 – CUSTODY

Clarion and/or its affiliates are deemed to have “custody” of cash of the Funds for purposes of Rule 206(4)-2 of the Investment Advisers Act of 1940 due to the Company’s role as general partner of the Funds. Assets of each Fund are held in the name of the Fund by an independent qualified custodian. The Funds are audited on an annual basis and audited financial statements are distributed to the limited partners within 120 days of the end of the fiscal year.

SMA Clients receive account statements from the qualified custodian on at least a quarterly basis. SMA Clients should carefully review the account statements they receive from these unaffiliated custodians. Clarion also urges clients to compare the statements received from the qualified custodians with the statements they receive from Clarion contained within the financial reports. To comply with SEC regulations Clarion has engaged Ernst and Young as its independent public accounting firm to conduct an annual surprise cash examination pursuant to Rule 206(4)-2.

## ITEM 16 – INVESTMENT DISCRETION

Clients may hire Clarion to provide discretionary asset management services, in which case we acquire or dispose of investments/securities in a client’s account without obtaining the client’s permission. When applicable, our discretionary authority generally includes the ability to do the following:

- determine the investment/securities to buy or sell; and/or
- determine the number of investments/securities to buy or sell.

Clients typically give us discretionary authority when they sign a discretionary agreement with our firm, as outlined in the investment management agreement or in the constituent documents of the Fund. SMA Clients may limit this authority by giving us written instructions. For example, SMA Clients may restrict the inclusion of specific types of assets in their portfolio. Clients may change such limitations by providing us with written instructions.

We generally have discretionary authority for the management and conduct of the affairs of the Funds we manage. We are responsible for and have the authority to identify, acquire, operate, manage, finance and sell Fund assets. Other responsibilities include, among other things, determining investment strategy and providing research, acquisition, portfolio management, asset management, property management, leasing supervision, client service, administration and financial accounting.

## ITEM 17 – VOTING CLIENT SECURITIES

Clarion and its affiliates provide investment advice and perform related services for private investment vehicles (Funds and SMAs) and certain Clarion affiliates have the authority to manage Clarion-sponsored Funds and SMAs. The provision of such services generally does not involve investments in publicly-traded securities that require the voting of proxy proposals, amendments, consents or resolutions. However, certain investors in, and certain entities comprising the structure of, Funds and SMAs may from time to time grant Clarion or its affiliates proxies and powers of attorney to the management authority of such affiliates over such Funds and SMAs.

## ITEM 18 – FINANCIAL INFORMATION

Form ADV Part 2 requires investment advisers such as Clarion to disclose any financial condition reasonably likely to impair our ability to meet contractual commitments to clients. At this time, we have no information to report that is applicable to this item.