

Part 2A of Form ADV: Firm Brochure

March 19, 2018

This brochure provides information about the qualifications and business practices of American Realty Advisors (“ARA”). If you have any questions about the contents of this brochure, please contact us at 213.233.5700 or butterfield@aracapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about ARA also is available on the SEC’s website at www.adviserinfo.sec.gov.

ARA is registered as an investment adviser with the SEC. Registration with the SEC does not imply a certain level of skill or training.

ARA | AMERICAN REALTY ADVISORS

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Item 2: MATERIAL CHANGES

This ADV Part 2A brochure (“Brochure”) is ARA’s annual update to our Brochure. There have been no material changes made since the March 20, 2017 annual update of the Brochure.



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Item 4: ADVISORY BUSINESS

ARA has been in business since 1988 and has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Act”) since 1990. ARA provides real estate investment management services primarily to institutional clients such as pension plans, trusts, endowments, foundations, and similar entities. Clients engage ARA to manage their real estate separate accounts, and ARA sponsors and provides advisory services to various open-end and closed end pooled investment vehicles (also referred to as “commingled funds”) that invest in real estate related investments. The investors in these vehicles are primarily institutional investors.

ARA’s senior investment professionals have always held 100% of ARA’s common stock. The Iezman Family Trust currently owns 100% of the firm’s common stock. Under the terms of the Iezman Family Trust agreement, Stanley L. Iezman, the firm’s Chairman and Chief Executive Officer, has exclusive voting control over ARA’s common stock. There are several key employees who share in the profits of ARA. This profit-sharing arrangement provides key employees with additional incentives to help ensure the success of the firm and aligns their interests to the goals of the firm’s clients in the same manner as if they had an economic ownership interest in the firm.

ARA provides a variety of investment advisory services focused exclusively on real estate related matters and investments. ARA invests in real estate and real estate related investments on behalf of its clients and provides advice regarding real estate investments. ARA generally limits the real estate investments it makes on behalf of its clients to commercial and multi-family properties. ARA also makes loans, enters into structured finance transactions secured, directly or indirectly, by real estate, on behalf of the firm’s clients, or invests in mortgage backed non-guaranteed certificates on behalf of the firm’s clients. ARA also provides services related to the oversight of the development of real estate assets.

ARA also manages cash generated from such real estate investments and makes short-term investments (“Short-Term Investments”) for certain of its clients related to their real estate investments. Such Short-Term Investments may include commercial paper, certificates of deposit, or U.S. Government securities.

ARA may establish a discretionary account with a bank, a broker-dealer or an investment adviser to allow them to make such Short-Term Investments. Such Short-Term Investments are generally made with capital awaiting investment in real estate, undistributed operating cash flow, or proceeds from the sale of real estate or other investments. Short-Term Investments are intended to be temporary, pending distribution of such funds to the client or reinvestment of such funds in new real estate related investments.

In addition to ARA’s primary business of investing in real estate, ARA may serve as a Qualified Professional Asset Manager (QPAM) under the provisions of Prohibited Transaction Exemption 84-14 issued pursuant to the Employee Retirement Income Security Act of 1974, as amended (ERISA), with regard to various transactions in which the services of a QPAM may be required. ARA may also serve as a consultant to various pension plans, apprenticeship funds, safety and education plans, profit sharing plans, unions or other clients on matters such as:



- reviewing and advising on the client's proposed real estate transactions;
- evaluating and advising on conflicts of interest in real estate related transactions;
- providing oversight of the development of real estate construction projects;
- conducting due diligence for potential real estate investments;
- providing analysis of various strategic decisions associated with leases, investments, development, dispositions and evaluation of investment decisions; and
- evaluating investments which have been completed to determine whether they meet various industry and fiduciary standards.

ARA also provides services as an advisor to separate account and pooled investment vehicle clients who have invested in real estate with another investment manager and who wish to engage ARA to takeover the management of the account or the pooled investment vehicle. These takeover services involve analyzing the assets in the takeover account and addressing historical issues with the assets and developing operating plans for the assets.

Advisory services are designed to satisfy the individual needs of each of ARA's separate account clients as outlined in the investment management agreement negotiated with the client. Typically, ARA's clients grant ARA discretionary authority to select the real estate investments to be made on behalf of such clients. ARA generally also has discretion to determine when to sell such real estate investments. However, certain clients may impose restrictions in the investment management agreement, in investment guidelines, or in an investment policy statement. Such restrictions may prevent ARA from investing in specific types of investments or limit ARA's discretionary authority.

ARA provides advisory services to the pooled investment vehicles it sponsors tailored to the specific goals, objectives and operating guidelines of each vehicle. For example, ARA's services can be tailored to accommodate the objective of avoiding unrelated business taxable income or of investing in a diversified portfolio of real estate, both geographically and by property type.

Clients' Assets Under Management

The amount of client assets ARA managed as of December 31, 2017 on a discretionary basis was \$8,239,262,509 and on a non-discretionary basis was \$7,565,579.

Item 5: FEES AND COMPENSATION

Fees – Separate Accounts

Annual fees for activities undertaken on behalf of ARA's existing separate account clients typically range from an annual rate of 0.45% to 2.00% of the value of the assets under management, depending on the nature of the separate account mandate. Asset management fee rates are typically based on some or all of the following criteria: the original acquisition cost of the assets; appraised value of the assets; the current net or gross market value of the



assets; the balance of any outstanding loan investment; or the net operating income generated from the assets. On occasion, the asset management fee charged by ARA may be a negotiated fixed amount.

Asset management fees for separate account clients are typically paid either on a monthly or a quarterly basis in arrears. Frequency of payment and amount of the fees are as agreed upon between ARA and the individual client.

In addition to the asset management fee, other fees, such as takeover, due diligence, real estate acquisition, incentive, workout, loan, or disposition fees, are paid on a negotiated basis with respect to ARA's separate account clients.

Fees – Pooled Investment Vehicles

ARA receives an asset management fee with respect to each investor's investment in the pooled investment vehicles it sponsors.

The governing documents of the pooled investment vehicles specify the fee schedule for the payment of any other fees to ARA by the investors in such vehicles. They also specify the timing of the payment of such fees to ARA which are typically charged on a quarterly basis in arrears. Asset management fees payable to ARA range from an annual rate of 0.80% to 1.25%, and vary depending upon the pooled investment vehicle sponsored by ARA and other factors. For example, except as noted below, the amount of the asset management fee paid to ARA by investors in one of the open-ended pooled investment vehicles sponsored by ARA is linked to the size of the investor's total investment commitment reduced by redemptions for investors who acquired their interests after January 1, 2015. In another of the pooled investment vehicles sponsored by ARA, the governing documents establish a tiered fee structure linked to the net asset value of the investor's investment.

No asset management fee is charged on commitments made by an investor that have not yet been contributed to the pooled investment vehicle.

In addition to the asset management fee, the governing documents for certain of the pooled investment vehicles include provisions for other fees such as a cash management fee; an acquisition fee; and a performance-based fee.

The existence of an acquisition fee may be deemed to create an incentive for ARA to cause such vehicles to acquire assets such vehicles might not have otherwise acquired based on the anticipated fee to be received by ARA. The performance-based fee may also be deemed to create an incentive for ARA to allocate investment opportunities to any pooled investment vehicles with such a fee over those without such a fee. These risks are reduced significantly by the other components of ARA's fee schedule, the policy for allocating investment opportunities and the involvement of a cross-functional Investment Committee in the approval of each acquisition.

ARA has historically elected to waive a portion of the asset management fees that would be payable to ARA pursuant to the governing documents for one of the pooled investment vehicles it sponsored. Investors in this vehicle who made a capital commitment below a breakpoint where asset management fees decline have been granted a fee break at such time as the net asset value of their interest in the pooled investment vehicle exceeds any of the



breakpoints for fee reductions even though their capital commitments were insufficient to achieve the fee break. This fee break has been provided to such investors until such time as the net asset value of their investment in the vehicle has declined below the breakpoint. In addition, ARA has elected to waive that portion of the asset management fee that would be payable to ARA pursuant to the governing documents for this pooled investment vehicle attributable to excess cash, which for purposes of the waiver is determined to be all cash in excess of 5% of the pooled investment vehicle's net asset value. There is no guarantee that ARA will continue to waive a portion of the fees to which it is entitled pursuant to the governing documents of the vehicle.

In addition, ARA has negotiated specific terms of investment with certain existing investors in its pooled investment vehicles that differ from the terms applicable to other investors, such as fees, and expects to do so in appropriate circumstances in the future. Except as noted above, fees paid by investors in the pooled investment vehicles sponsored by ARA have historically not been negotiable.

Hourly fees are charged for certain services provided to consulting services clients at rates ranging from \$250 to \$1,500 per hour, depending on the nature of the work, as negotiated by the client. In addition, fixed fee arrangements for certain consulting services are agreed upon with some consulting services clients.

Separate account clients may select whether they prefer to be billed for their fees or to have the fees deducted from their account. However, ARA typically bills its separate account clients for the fees incurred. This occurs on a quarterly basis unless ARA and the client negotiate other payment terms. Fees are not deducted from assets held in a separate account unless the investment management agreement with the client provides ARA with this authority.

ARA deducts fees from distributions to investors who have invested in the open-end pooled investment vehicles ARA sponsored. If an open-end pooled investment vehicle sponsored by ARA does not declare a distribution for a particular quarter, the asset management fees due to ARA would accrue and be paid out of the next available distribution. In the case of the closed-end pooled investment vehicles, and the open-end pooled investment vehicle currently managed by ARA but originally sponsored by another advisor, ARA deducts its fees from the investor's investment directly. Asset management fees are paid quarterly, in arrears. Acquisition fees are paid following the closing on a new investment. Performance based fees are payable in accordance with the terms of the governing documents for those pooled investment vehicles that provide for such a fee.

ARA has negotiated specific terms of investment for certain investors in its pooled investment vehicles that differ from the terms applicable to other investors, such as fee offsets, and under appropriate circumstances may be so in the future. Except as noted above, the method for payment of ARA's fees is fixed by the terms of the governing documents applicable to an investment in the pooled investment vehicles. Therefore, investors who invest in such pooled investment vehicles are not able to select which method of payment they would prefer.



Other Types of Fees or Expenses

ARA bears its own costs of compensation of its officers and employees and related overhead expenses, except that the costs of compensation and benefits of certain legal, investor relations, due diligence, administrative support, accounting, certain asset management, development and construction, insurance, reporting and other professionals employed by ARA that provide services that would normally be provided by outside professionals is reimbursed by the pooled investment vehicles in a manner consistent with their governing documents. Such reimbursements are at the direct cost of such employee, with no reimbursement for any administrative, rental or other overhead costs associated with such person, although in the case of one of the pooled investment vehicles ARA would be authorized to be reimbursed for overhead associated with such persons. Such reimbursement is at a cost no greater than the rates charged by third parties for comparable services as determined by ARA pursuant to its policies and procedures and do not generate any profit to ARA.

For example, the pooled investment vehicles reimburse ARA for a portion of the salaries and benefits of certain ARA employees who provide legal, investor relations, due diligence, administrative support, accounting, certain asset management, development and construction, insurance, reporting and other professional services to ARA to the extent that such services relate to the pooled investment vehicle. The portion of a specific employee's salary and benefits to be reimbursed by a specific vehicle is determined each month based on the percentage of such employees' time that was spent during the month on services required with respect to the operations of the vehicle. Any reimbursements paid by a pooled investment vehicle to ARA are subject to limitations set out in the vehicle's governing documents. The pooled investment vehicles do not reimburse ARA for the salaries and benefits related to ARA's investment committee members, senior acquisition personnel in the case of one vehicle or any acquisition personnel in the case of another, senior asset management personnel and such other senior managers as are responsible for the day to day management and strategic direction of ARA. Instead, ARA bears its own costs of compensation of such personnel and overhead expenses related to such personnel.

The investment management agreements between ARA and its separate account clients specify any fees or expenses required to be paid by the client that are in addition to the forms of compensation discussed above.

Third party expenses incurred by ARA that are related to the operations of the assets held by a pooled investment vehicle or a separate account are generally paid to such third parties by ARA and ARA is reimbursed based on the client's allocable portion thereof. Such expenses include but are not limited to: (i) certain expenses incurred by ARA's employees in connection with identifying, negotiating, executing, researching, financing, managing, developing, or disposing of potential or actual investment opportunities for the pooled investment vehicles, (ii) costs and expenses related to engagement of third party consultants, advisers and service providers, including those who provide accounting and analytical services, (iii) costs and expenses related to insurance policies, (iv) brokerage and other transaction costs including but not limited to custody fees, (v) any costs and expenses related to indemnities, taxes or litigation imposed on or due by the pooled investment vehicles or their subsidiaries, (vi) in certain circumstances, costs and expenses related to raising equity capital; and (vii) costs and expenses related to administration of the vehicles, and accounting and IT services provided to these vehicles.



Consulting services clients are obligated to pay for certain expenses in connection with the provision of the services specified in the consulting services agreement. Any obligation to reimburse ARA for expenses, however, would be negotiated and outlined in the agreement entered into between the client and ARA. ARA typically invoices such clients for any such expenses incurred by ARA.

A separate account client or the pooled investment vehicle is typically not billed on a direct basis for any third party real estate brokerage fees or other transaction costs associated with the purchase or sale of a real estate asset or the leasing of space in a real estate asset owned by such client or vehicle. However, these expenses are paid at the investment level with respect to such client or vehicle and therefore are indirectly borne by clients through the impact on the overall performance of that investment.

Reimbursement of ARA for any expenses incurred by ARA for the benefit of such pooled investment vehicles, separate account clients and consulting services clients are conducted in compliance with ARA's policies and procedures.

ARA's fees are generally earned when services are provided, and are generally paid in arrears after the services have been provided. On occasion, ARA will enter into a consulting services engagement and the terms of the consulting services agreement for that engagement will provide that a portion of the fee that is negotiated for the project is earned and due at the time the agreement is executed with the balance of the fee either due at pre-determined stages or upon completion of the assignment. No refunds are available for any portion of the fee due upon execution of the agreement for such an engagement unless the client has negotiated such a provision in the agreement.

Neither ARA nor any of ARA's employees, accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Item 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The investment management agreements between certain of ARA's separate account clients and ARA provide that ARA is entitled to receive an incentive fee calculated as a percentage of the return on the client's investment above a certain minimum return, or based on other performance related criteria. Any such incentive fee is in addition to the fixed asset management fee paid by the client.

The investment management agreement between ARA and certain of the pooled investment vehicles it sponsors provides ARA with the opportunity to receive a performance-based fee. Such fees are summarized in the offering documents related to such vehicles.

ARA's receipt of performance-based fees may incentivize ARA to make investments that are riskier or more speculative than it would make in the absence of performance-based fees. With respect to the pooled investment vehicles that ARA manages, the performance-based



fee arrangements are not the product of arm's length negotiations with third parties. Instead, these fee arrangements are established by the governing documents for the pooled investment vehicles and are known to the investors in those vehicles at the time that they make their investment decision.

All performance-based fees are calculated and paid in accordance with Section 205 and Rule 205-3 under the Act.

ARA believes that incentive fees serve to align ARA's interests with those of its clients. The potential exists, however, for these incentive fees to create a conflict of interest. For example, ARA could be motivated to allocate more favorable investment opportunities or devote more resources to accounts offering ARA the potential to earn an incentive fee.

ARA believes that any potential conflicts of interest with respect to allocation of investments that might otherwise exist due to performance-based fee accounts are mitigated by ARA's rotational allocation of investments and its rigorous application of its asset management procedures. ARA uses a rotational system for the allocation of investments among the various separate account portfolios and pooled investment vehicles that it manages on behalf of its clients. Allocation of potential investments among client portfolios and pooled investment vehicles is based on the amount of time the client portfolio or the pooled investment vehicle has been waiting for an allocation of a potential investment. Given this system, investments are allocated to the portfolio that has been waiting for an investment allocation for the longest period of time. No preference is given to any client portfolio or pooled investment vehicle in the application of this rotational system.

Potential investments are allocated to new separate accounts based on the date that a fully executed copy of the investment management agreement between the client and ARA is received by ARA or the effective date of that agreement, whichever is later. Potential investments are allocated to newly-formed pooled investment vehicles sponsored by ARA based upon the date on which the vehicle commences operations.

In addition, ARA applies a consistent approach to asset management across all assets under its management regardless of the fee structure of the account in which the asset is held. For example, ARA has a formal allocation policy that helps mitigate the risk that investment opportunities will be allocated to accounts based, even in part, on whether or not the account affords ARA the opportunity to earn an incentive fee. In addition, all assets under management receive the same detailed attention and management. Compliance with ARA's policies and procedures related to the management of the firm's assets and any potential conflicts of interest are monitored by the firm's Chief Compliance Officer, members of the firm's senior management and ARA's Investment Committee.

Item 7: TYPES OF CLIENTS

ARA serves primarily as a real estate investment manager for pension plans regulated by ERISA, for government pension plans not subject to ERISA and for pooled investment vehicles. In addition, various health and welfare plans, trusts, endowments, foundations, and



similar institutional entities have invested in such pooled investment vehicles. ARA may also provide advisory services to individuals should they wish to establish a real estate separate account. In addition, individuals who meet the requirements for investment in such vehicles may invest in the pooled investment vehicles sponsored by ARA.

ARA has not established a minimum account size for establishing a separate account. The amount of the minimum initial investment required for investment in the pooled investment vehicles sponsored by ARA ranges from \$1 million to \$2 million. ARA, in its sole discretion, may accept investments of less than these amounts in the pooled investment vehicles.

Item 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Investment Strategies

The investment criteria used by ARA for investing in or disposing of an individual real estate related asset, or making a loan on behalf of a client's account, is governed by the specific investment strategy adopted for each client's portfolio or the applicable pooled investment vehicle.

Investment criteria considered in connection with the selection of assets for a particular client portfolio may include: current and potential cash flow; current investment value and future appreciation potential; preservation of capital; highest and best use of a real estate asset; or location, with emphasis on product demand within the market or the sub-market.

ARA's loan underwriting or investment process begins with a market and sub-market analysis. This analysis is followed by a comprehensive review of the investment, underwriting of the terms of the investment, negotiation of the terms of the transaction, due diligence regarding the investment and if the decision is made to move forward with the investment, the closing process. During the loan underwriting or acquisition process, ARA may engage experts which include but are not limited to those in the field of construction, environmental, leasing, legal and property management to evaluate: the specific property; the current or potential tenants in such property; and the market or submarket in which the property is located.

ARA is active in the management of the real estate assets held in its clients' portfolios. ARA utilizes a hold/sell evaluation that is consistent with the investment guidelines established for each client portfolio. ARA seeks to identify each variable that has the potential to impact value for each of the assets held in its clients' portfolios or in the portfolios of its pooled investment vehicles. In addition, ARA seeks to understand risk factors that can impact performance returns and to determine how to mitigate those risks when they are controllable. Developed utilizing a team-oriented, research-focused process, these factors are incorporated into a strategic plan for operations and exit for each real estate asset and periodically updated in a manner intended to maximize value.

As noted in Item 4, above, ARA also makes Short-Term Investments. Such investments are either made directly by ARA or made through a bank, a broker-dealer or an investment



adviser to whom ARA has granted discretionary investment authority, subject to certain investment guidelines.

For Short-Term Investments in U.S. Government securities that are made directly by ARA, ARA relies on the investment's credit ratings and published information regarding the expected movement of interest rates. For short-term securities that are not obligations of the U.S. Government, ARA reviews rating agency analysis and other publicly available information regarding the creditworthiness of the obligor and the particular security. ARA reviews financial publications and broker-dealer research reports as applicable.

Investments in real estate involve economic and business risks inherent in real estate investments as described in detail below. Real estate related investments involve a risk of loss that clients and investors in pooled investment vehicles should be prepared to bear.

Material Risks of the Investment Strategies Utilized by ARA

ARA seeks to achieve client objectives through prudent investment and the application of investment guidelines to its management of client portfolios and pooled investment vehicles.

The investment strategies utilized by ARA to achieve its client's objectives may, however, involve potential risks that may include, but may not be limited to, the impact of investing in particular geographic locations or property types and the impact of investing in properties with more or less exposure to particular industries represented by its tenants' lines of business.

In addition to geographic, property sector, and economic risks, the various investment strategies used by ARA involve risks that can be identified as falling into the categories listed below.

Management-Related Risks

ARA seeks to provide full transparency to clients and their advisors with respect to the primary aspects of the firm's operations. The firm seeks to ensure that potential conflicts between the firm's interests and those of its clients are disclosed.

Market-Related Risks

ARA actively tracks and seeks to forecast real estate market conditions at the macro, market and submarket level. From this data, ARA then identifies potential opportunities and risks related to real estate market conditions through its target market analysis.

Property-Related Risks

ARA has developed a systematic process for evaluating each property's characteristics including, but not limited to, lease rollover, tenant credit and other property-specific risks. The ability to attract and retain tenants and to underwrite tenant creditworthiness accurately fluctuates depending on overall economic conditions.



Capital Market-Related Risks

ARA's investment strategy is focused on institutional quality single and multi-tenant assets nationwide that exhibit high quality construction and design features or that will upon execution of the business plan established for the asset. At times, such assets may outperform or underperform other assets of differing sizes, locations and/or quality.

Material Risks of Investing in Real Estate and Pooled Investment Vehicles

ARA's business is exclusively related to real estate and real estate related investments. The following is a summary of the specific risks involved in investing in real estate or real estate related investments or in a pooled investment vehicle, such as those sponsored by ARA, that invest exclusively in real estate or real estate related investments.

Real Estate Investments May Not Generate Sufficient Income to Pay Expenses Related to the Investment

A risk of investing in income-producing real estate is the possibility that the real estate will not generate income sufficient to meet operating expenses, to service any loans that are secured by the properties or to fund adequate reserves for capital expenditures. The income from such properties may be affected by many factors, including but not limited to the factors listed below:

- fluctuations in occupancy levels, operating expenses and rental income (all of which in turn may be adversely affected by general and local economic conditions);
- the supply of and demand for properties of the type in which ARA has invested on behalf of its clients;
- compliance by tenants with the terms of their leases;
- collection difficulties;
- energy shortages;
- the enactment of unfavorable environmental, zoning or other legal restrictions or regulations;
- Federal and local rent controls; and
- changes in real property tax rates.

Real Estate Values May be Influenced by General Economic Conditions

Each real estate investment made by ARA is exposed to the general economic conditions and the local, regional and national conditions that affect the market in which it is located. Any material oversupply of similar properties or a material reduction of demand for such properties in the market could adversely affect the investment.

Real Estate Values May be Influenced by General Capital Market Conditions

Each real estate investment made by ARA is exposed to the general capital market conditions that affect investor demand for real estate. Any material decrease in investor perceptions of



the desirability of investing in real estate and resulting decrease in investor interest in real estate could adversely affect the investment.

Real Estate Values are Subject to Various Other Factors Outside ARA's Control

Real property investments are subject to varying degrees of risk. While ARA attempts to minimize exposure to these risks through the diversification of a client's portfolio, use of market research and the exercise of ARA's investment management capabilities, these risks cannot be eliminated. The factors that can affect real estate values include:

- the attractiveness of the property to potential buyers or renters;
- competition from other available properties;
- the ability to provide adequate maintenance of, and insurance on, its properties;
- the ability to control variable operating costs; and
- governmental regulations, including zoning, usage and tax laws, and changes in or potential liability under these and other laws.

Risks Associated with Acquisition of Real Estate

The acquisition of properties involves risks, including the risk that the acquired property will not perform as anticipated and the risk that any actual costs for rehabilitation, repositioning, renovation and improvements identified in the pre-acquisition due diligence process will exceed estimates. There is, and it is expected that there will continue to be, significant competition for investment opportunities that meet the investment criteria for ARA's pooled investment vehicles and its clients' separate accounts. There are also risks associated with obtaining financing for acquisition activities, if necessary.

Risks Associated with Development and Repositioning Activities

On behalf of certain of its clients, ARA may acquire direct or indirect interests in real estate that is undeveloped or underdeveloped. To the extent ARA invests in such an asset, the investment will be subject to the risks normally associated with development activities. Such risks include but are not limited to:

- risks relating to the availability and timely receipt of zoning,
- planning consents, licensing and other regulatory approvals,
- the cost and timely completion of construction (including risks beyond the reasonable control of ARA, such as weather or labor conditions or material shortages), and
- the availability of both construction and permanent financing on favorable terms.

These risks could result in substantial unanticipated delays or expenses. These risks could prevent completion of the development activities. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the



course of development, which may make such development less attractive than at the time it was commenced.

Certain investments made by ARA on behalf of its clients may involve real properties under construction. The primary risks associated with new construction are cost overruns and delays. ARA will generally require developers to meet certain performance benchmarks with respect to construction progress, as a condition of the investment. Although such developers may be required to guarantee completion of construction and be responsible for cost overruns, delays may be beyond the control of such developers, and hence related risks cannot always be fully mitigated. Should delays occur, the related investment may be subject to a longer holding period, possibly decreasing the return. Developer guarantees may not include all costs or may not be fulfilled by the developer.

Although ARA will typically seek to mitigate some of the construction risk by requiring third-party surety guarantees for the completion of construction in some instances, affiliating in some instances with development companies having significant net worth and cash flow to support completion guarantees, and in some cases requiring the deferral or hold back of certain portions of developer fees and a portion of construction fees, there can be no assurances that ARA will be successful in so doing. Any increased construction costs could materially and adversely affect the return on the investment.

Cash Flow and Return on Investment are Subject to Risks Related to Tenant Defaults or a Lack of Acceptable Tenants

Where ARA's investments on behalf of its clients involve real estate, the results of operations and distributable cash flow would be adversely affected if a significant number of the tenants are unable to meet their lease obligations. In the event of default by a significant number of tenants, ARA may experience delays and substantial costs may be incurred in enforcing its rights as landlord. The property's performance would also be adversely affected if ARA is unable to lease and re-lease, on economically favorable terms, a significant amount of space in its real estate properties. The number of real estate properties involving similar types of use and/or customer base in a market or submarket could adversely affect both ARA's ability to lease and lease-up the property and the rental rates that can be obtained in new leases where applicable.

Commercial Mortgage Loans May Not be Available on Acceptable Terms

Commercial mortgage loans generally lack standardized terms, which may complicate their structure. Commercial properties themselves tend to be unique and are more difficult to value than single-family residential properties. Commercial mortgage loans also tend to have shorter maturities than residential mortgage loans and may not be fully amortizing, meaning that they may have a significant principal balance, or "balloon," due on maturity. The timely payment of interest and principal on a commercial mortgage loan is secured by an income producing property and, therefore, is dependent upon performance and payments by the lessees under the related leases and the successful operation of the underlying property, rather than its liquidation value. If the net operating income from the underlying property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the commercial mortgage loan may be impaired.



Furthermore, the liquidation value of the property may be adversely affected by risks generally incidental to interests in real property. In addition, the borrower's ability to make payments with respect to a commercial mortgage loan depends largely on the ability of tenants to perform under their rental obligations under existing leases and the ability of the borrower to continue to lease a substantial portion of the property upon terms that do not adversely affect the property's cash flow. As the leases expire or lessees default, the demand for and supply of rental space in general, from time to time, may affect the property's occupancy rate and the rental rates obtained and concessions, if any, granted on new leases or re-leases of space, which may cause fluctuations in the cash flow from the operation of the property. Such fluctuations may affect the amount and timing of payments on the commercial mortgage loan.

Furthermore, commercial mortgage loans with balloon payments involve a greater degree of risk of payment because the ability of a borrower to make a balloon payment may depend upon its ability to either refinance the loan or to sell the related property. The ability and desire of the borrower to accomplish either of these goals will be affected by a number of factors, including:

- the level of available mortgage rates at the time of sale or refinancing,
- the borrower's equity in the property,
- the physical and financial condition and operating history of the property,
- tax laws, and
- prevailing general economic and market conditions and the availability of credit for commercial real estate projects, generally.

In addition, the value of commercial properties depends, in part, on the fitness of such properties for a particular purpose. Thus, no assurance can be given that a borrower will not default.

Subordinated and Mezzanine Debt Investments Involve Additional Risks Due to Lack of Control Over the Underlying Investment

ARA may make or acquire subordinated and mezzanine debt investments on its clients' behalf, such as mortgage backed non-guaranteed certificates. To the extent ARA makes or acquires such investments on behalf of its clients, ARA does not anticipate having absolute control over the underlying collateral and will be dependent upon third-party borrowers and agents and will have rights that are subordinate to those of senior lenders. ARA, on behalf of its clients, may make investments in loans secured by real property. If interest rates or financial markets change, or there is an adverse development with respect to such property, ARA may be unable to obtain repayment of the loan or to dispose of its client's interest at a price sufficient to recover its client's full investment. In certain circumstances, the loans made by ARA on behalf of certain of its clients may not be secured by a mortgage, but instead by membership interests or other collateral that may provide weaker rights than a mortgage.

In any case, in the event of default, the source of repayment will be limited to the value of the collateral and may be subordinate to other lienholders. The collateral value of the property may be less than the outstanding amount of the investment. Returns on an investment of this



type depend on the borrower's ability to make required payments, and, in the event of default, the ability of the loan's servicer to foreclose and liquidate the loan.

The Foreclosure Process Associated with Nonperforming Loans May be Lengthy and Expensive

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

The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including lender liability claims and defenses. Even when such assertions may have no basis in fact, borrowers may take such actions in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may disrupt ongoing leasing and management of the property.

Investment Returns on Short-Term Investments May Be Less than Real Estate Returns

ARA may, at times, have custody of excess funds or funds held for clients may be invested in Short-Term Investments pending investment in real estate investments. The investment returns from these investments may be lower than the investment returns from real estate investments.

Illiquidity of Real Estate Investments

Investments in real estate are illiquid and subject to industry cycles, downturns in demand, market disruptions and the lack of available capital from potential lenders or investors (whether to finance or refinance portfolio properties or for potential purchasers of such properties). The marketability and value of real estate acquired by ARA for its clients depends on a number of factors beyond ARA's control. Significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, generally are not reduced in the event of a reduction or interruption in income from such investments. There is no assurance that cash flow from such investments will at all times be sufficient to provide for such expenditures.



Insurance Coverage May Not Cover All Losses

ARA expects to maintain suitable comprehensive insurance coverage for each of its clients' properties and their respective business operations, in each case as appropriate for the markets in which such properties and business operations are located. Any such insurance coverage will contain policy specifications and insured limits customarily carried for similar properties, business activities and markets. However, there are certain losses, including losses from hurricanes, fires, floods, earthquakes, volcanic eruptions, acts of war, or acts of terrorism and riots, that generally are not insured against or that generally are not fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of the properties owned by a particular client, the client could experience a significant loss of capital invested in the properties as well as a loss of potential revenue from the properties and could potentially remain obligated under any recourse debt associated with the properties.

Potential Environmental Liability

Real property is subject to federal and state environmental laws, regulations and administrative rulings that, among other things, establish standards for the treatment, storage and disposal of solid and hazardous waste. Real property owners are subject to federal and state environmental laws that impose liability on both past and present owners and users of real property for hazardous substance remediation and removal costs. Liability is often imposed without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. Accordingly, there may be exposure to substantial risk of loss from environmental claims arising in respect of any property with undisclosed or unknown environmental problems or as to which inadequate reserves have been established. There is no assurance that such conditions do not exist or may not arise in the future, and the presence of such substances on the real estate investments made by ARA on behalf of its clients could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

Possibility of Future Terrorist Activity

The properties in which ARA invests on behalf of its clients may be located in or near major metropolitan areas of the United States. Such properties, or the areas in which they are located, could be subjects of future acts of terrorism. In addition to the potential direct impact of any such future act, future terrorist attacks and the anticipation of any such attacks could have an adverse impact on the U.S. financial and insurance markets and economy, thus harming leasing demand for and the value of certain properties. It is not possible to predict the severity of the effect that such future events would have on the U.S. financial and insurance markets and economy or the properties in which ARA has invested client funds. These events may have a negative effect on the business and performance results of the properties in which ARA has invested client funds, by raising insurance premiums and deductibles and limiting available insurance coverage.



Risks Related to Investments in Pooled Investment Vehicles

Investments in pooled investment vehicles involve risks that a direct investment in real estate may not involve. For example, investors in a pooled investment vehicle are not able to make any investment or other decision on behalf of the pooled investment vehicle and have no right to take part in the management of, or otherwise control, the business of the pooled investment vehicle. In addition, if an investor in a pooled investment vehicle fails to pay installments of its capital commitment when due, and the contributions made by non-defaulting investors are inadequate to cover the defaulted capital contribution, the pooled investment vehicle may be unable to meet its obligations when due.

Risks Related to Cybersecurity

ARA collects and stores sensitive data on its systems including proprietary business information and personal information relating to its employees. The secure transmission, processing and maintenance of this information is critical to ARA's operations. Although ARA utilizes cybersecurity measures, it may still be vulnerable to attacks by outsiders or breach due to employee error or wrongdoing. Any breach could compromise ARA's systems, and the information may be accessed, publicly disclosed, lost or stolen. This may cause a disruption in operations, legal claims, regulatory proceedings or otherwise damage its business.

Regulatory Risk

Portfolio investments may be subject to extensive governmental regulation including regulations relating to land use, zoning restrictions, permitting, income or transfer taxes. These regulations may prevent ARA from making certain investments that it otherwise would make. It may also increase the cost of acquiring, holding or divesting investments and reduce the profitability of such investments.

Item 9: DISCIPLINARY INFORMATION

There are no legal or disciplinary events that would be material to an evaluation of the firm or the integrity of the firm's management.

Item 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither ARA, nor any of its management persons, are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.



Neither ARA nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of any such entity.

Material Relationships

There are currently no relationships or arrangements that are material to ARA's advisory business or to ARA's clients that ARA or any of ARA's management persons have with any other businesses providing services to ARA's clients or its pooled investment vehicles. For example, none of the property management firms, real estate brokers, accountants, appraisers or banks utilized to provide services are affiliated with ARA. In addition, none of ARA's management persons have an ownership interest in any such service providers.

ARA has the right under the terms of many of its investment management agreements to have services required in connection with the management of the account or pooled investment vehicle performed either by ARA or its affiliates. In the event this should occur in the future, the party performing such services would receive compensation at rates comparable to or less than prevailing rates charged by independent third parties in the locale where the services are performed.

ARA does not recommend or select other investment advisers who would have a direct relationship with its clients. ARA has selected other unaffiliated investment advisers who on occasion may manage Short-Term Investments made in cash equivalents. ARA does not receive compensation directly or indirectly from the investment advisers engaged to manage Short-Term Investments. One of these investment advisers is affiliated with a bank used by in connection with investments made by ARA on behalf of its clients and its pooled investment vehicles as well as by ARA for its business needs. ARA does not have any other business relationships with the investment advisers engaged to manage the Short-Term Investments or any business relationships with other investment advisers that could create a material conflict of interest.

Item 11: CODE OF ETHICS; PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

ARA's Code of Business Conduct and Ethics ("Code") sets forth the standards of business conduct ARA expects from each of its officers, directors and employees. The Code requires, among other things, that all employees comply with applicable federal securities laws, including those related to insider trading; protect confidential or proprietary client information; recognize their fiduciary duty to ARA's clients; and place ARA's clients' interests before their own in any business dealing.

ARA does not invest, on behalf of ourselves or our clients, in securities that trade on exchanges. Nevertheless, our Code contains several restrictions and procedures designed to eliminate conflicts of interest surrounding personal investment transactions. The Code



requires (i) preclearance of certain personal investment transactions, (ii) quarterly reporting of all non-exempt personal securities transactions that were transacted during the quarter, (iii) filing of initial and annual holdings reports; (iv) a prohibition against personally acquiring securities in an initial public offerings without prior approval, (v) a prohibition against purchasing securities of a private placement without prior approval, and (vi) a prohibition against acquiring any security which is subject to firm wide restriction without prior approval.

Monitoring of employee personal securities transactions is handled by ARA's Compliance personnel and any required and related records are maintained by the Compliance department.

ARA has also established policies and procedures related to political contributions that are designed to comply with applicable federal, state and local law. The policy requires the reporting and preclearance of political contributions made by an employee which exceed certain thresholds and prohibits certain other political contributions by an employee to allow ARA to comply with federal, state and local laws. Employees certify compliance with the policy on a quarterly basis.

A copy of ARA's Code will be provided free of charge to any client or prospective client or investor who requests a copy.

Recommendations Regarding Securities

Neither ARA, nor any employee or affiliate of ARA, recommends to clients or potential clients securities in which ARA or an employee or affiliate has a material financial interest. ARA does not buy or sell Short-Term Investments for client accounts in which ARA or an employee or affiliate has a material financial interest. ARA does not acquire real estate for a client account or pooled investment vehicle in which ARA or an employee or affiliate has a material financial interest.

Co-Investment

ARA, an affiliate of ARA, or an employee of ARA, may invest in certain of the pooled investment vehicles sponsored by ARA along with the investors. In addition, ARA, an affiliate, or an employee may invest directly in the portfolio investments made by these investment vehicles and certain employees have done so in the past in immaterial amounts. Additional pooled investment vehicles may be sponsored by ARA in the future that may also allow for that possibility. Although such co-investment could give rise to a conflict of interest under certain circumstances, ARA believes that any such employee co-investment is more likely to further align the interests of ARA and its employees with those of ARA's clients and the investors in the commingled funds sponsored by ARA than to create any conflict of interest. Appropriate disclosures will be made and actions taken, in the event of any co-investment, to mitigate the risk that a conflict could occur.

Any purchase or sale of any real estate on behalf of the firm's clients or the pooled investment vehicles must be approved by ARA's Investment Committee in accordance with procedures designed to provide the Investment Committee members with sufficient time and information to make a fully informed decision. This requirement minimizes the risk that a decision would be made based on any criteria other than the client's best interests.



ARA does not invest in publicly traded securities on behalf of its clients other than Short-Term Investments. As a result, except potentially for Short-Term Investments, neither ARA nor any of its employees or affiliates could encounter a situation where ARA, or its employees or affiliates was considering an investment in the same securities that ARA had recommended to a client. Either ARA or its affiliates have co-invested in certain of the pooled investment vehicles sponsored by the firm in the manner specified in the governing documents of such vehicles. If any of ARA's employees elect to invest directly in interests in the open-end pooled investment vehicles sponsored by ARA, although ARA may elect to waive their asset management fee obligations, in other respects they would invest on the same terms as any other investor. Thus, there would be no conflicts of interest created by such an investment.

Item 12: BROKERAGE PRACTICES

ARA does not use securities brokers in connection with its real estate advisory activities. However, ARA may invest (i) clients' funds held but not yet invested in real estate, (ii) funds generated from the management of properties, or (iii) proceeds from the sale of real estate pending distribution to the client. These investments are strictly incidental to ARA's real estate advisory services. ARA uses the services of large commercial banks to invest such funds in money market funds that invest primarily in such Short-Term Investments. ARA does not receive research or soft-dollar benefits in connection with these investments.

ARA does not recommend broker-dealers to its clients or utilize broker-dealers in connection with the real estate transactions in which it engages on behalf of its clients.

ARA does not recommend, request or require that a client direct ARA to execute transactions through a specified broker-dealer. Nor does ARA permit a client to direct brokerage. Broker-dealers are not utilized by ARA in connection with ARA's advisory business. Broker-dealers may, however, be used by investment advisors engaged to invest in Short-Term Investments.

Other than minimal investment of excess cash in Short-Term Investments, ARA does not purchase or sell publicly-traded securities for its client's accounts.

Item 13: REVIEW OF ACCOUNTS

ARA's portfolio managers periodically review each separate account and pooled investment vehicle in order to evaluate and confirm compliance with the terms of the investment guidelines and investment management agreements applicable to such accounts and pooled investment vehicles. Real estate investments held by separate accounts and pooled investment vehicles are also reviewed by ARA's Investment Committee, or a subcommittee thereof, on a periodic basis. For example, the Investment Committee, or a subcommittee thereof, will receive an information briefing regarding the business plan and the budget for each asset and portfolio at least on an annual basis.



ARA's separate account clients receive written quarterly status and activity reports, including unaudited financial statements, and a calculation of income, appreciation and total return (gross and net of fees). In addition, ARA participates in face-to-face meetings with its clients as requested by such clients.

Investors in the pooled investment vehicles sponsored by ARA receive written quarterly status and investment activity reports, including unaudited financial statements, and a calculation of income, appreciation and total returns (gross and net of fees) for at least the first three quarters of a calendar year. In addition, such investors receive, on an annual basis, copies of the audited financial statements. ARA participates in face-to-face meetings with such investors upon receipt of a request to do so.

Item 14: CLIENT REFERRALS AND OTHER COMPENSATION

ARA does not receive an economic benefit from anyone other than its clients for providing investment advice or other advisory services.

ARA does not currently have any relationship with any third-party firm or individual who is not an employee of ARA for the purpose of marketing the firm or any of its products for compensation. Neither ARA, its shareholder, nor any of its employees, officers, or directors directly or indirectly compensate any person who is not an employee of ARA for new client referrals. However, ARA may in the future elect to enter into an arrangement with, and compensate, placement agents in return for referrals of investors in the pooled investment vehicles. Any compensation paid specifically for such referrals would be fully disclosed to affected investors and would fully comply with the requirements of Rule 206(4)-3 under the Act, if applicable, and the disclosure requirements in the Form ADV.

Item 15: CUSTODY

ARA maintains policies and procedures to comply with the requirements of Rule 206(4)-2 of the Advisers Act (the "Custody Rule").

Although ARA does not act as a qualified custodian, ARA may be deemed to have custody of client funds, because ARA has discretionary authority over the funds held in the bank accounts it has established on behalf of its clients. The investors in the pooled investment vehicles managed by ARA, receive audited annual financial statements from third-party auditors engaged by the pooled investment vehicles within 120 days of the fiscal year end as required by the Custody Rule. Separate account clients receive account statements on a monthly basis directly from the qualified custodian bank holding funds associated with their account. Clients are encouraged to carefully review the account statements received from these custodian banks.



The accounts of separate account clients will be subject to a surprise independent audit as required by the Custody Rule.

Clients should contact ARA promptly with any questions about the account statements or the audited financials or if such documents are not received in a timely manner.

Item 16: INVESTMENT DISCRETION

The terms of the investment management agreements entered into between ARA and its separate account clients and the pooled investment vehicles typically grant ARA full discretion to make investments on behalf of the client subject to investment guidelines that may be established by the clients and incorporated in the agreement. As a result, subject to such guidelines and established limits, ARA may determine what assets to purchase, when to sell the assets and how to manage the asset. ARA's management discretion includes the ability to make decisions related to capital improvements and leverage on the assets.

In certain instances, ARA has contracted with a bank or an independent registered investment adviser to invest client funds in Short-Term Investments. Each such agreement grants the bank or advisor discretionary authority over such investments subject to investment guidelines established by ARA. In other instances, ARA has placed funds directly in Short-Term Investments. Such Short-Term Investments are made pending investment of such funds in real estate or distribution to clients.

ARA retains discretion with regard to the selection of the Short-Term Investments to be bought and sold, and with regard to their amounts, within the framework described above.

In selecting firms to engage and grant discretion for purposes of the investment of client funds in Short-Term Investments, ARA considers a firm's experience and financial condition. In determining the reasonableness of their fees, ARA considers the quality of their services and the level of fees of similarly qualified competing firms.

Item 17: VOTING CLIENT SECURITIES

ARA does not have, and will not accept, authority to vote client securities. ARA does not invest in publicly-traded securities on behalf of its clients, except for certain Short-Term Investments that are cash equivalents with no voting rights. On behalf of its clients, ARA may, on occasion, acquire certain privately-traded securities when it acquires the shares or membership interests in an entity formed to hold title to real estate, rather than making a direct investment in real estate on behalf of its clients. However, such entities are generally wholly owned by ARA's clients or the pooled investment vehicle managed by ARA and ARA has discretion to vote such securities. Since ARA does not hold any publicly-traded securities which possess voting rights on behalf of its clients, ARA does not have, and will not accept, authority to vote proxies related to securities held on behalf of its clients. Thus, it has not



been necessary for ARA to establish policies related to delivery of proxies and other solicitation materials related to securities.

Item 18: FINANCIAL INFORMATION

In general, ARA does not require that its clients prepay the fees due to ARA. Certain clients that have engaged ARA for a short-term consulting services assignment may be obligated to pay a portion of the engagement fee upon execution of the consulting services agreement with the remainder due at pre-determined stages during the completion of the assignment. With the exception of such engagements, ARA does not expect to require the prepayment of its fees at any time in the future.

In most instances, ARA has discretionary authority over client funds. ARA is not currently aware of any financial condition that may impact ARA that is reasonably likely to impair ARA's continued ability to meet its contractual commitments to its clients.

ARA has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

ARA is registered with the SEC and is not required to be registered at the State level.