



AII CAPITAL MANAGEMENT, LLC

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Form ADV, Part 2A Brochure

as of October 15, 2019

This "Disclosure Brochure" or "Brochure" provides information about the qualifications and business practices of Aii Capital Management, LLC (Adviser or Firm). If you have any questions about the contents of this brochure, please contact us at (805) 604-2640. 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. Adviser is registered with the SEC which does not imply any level of skill or training.

Additional information about Adviser is also available at the SEC's website www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 299674.

Item 2 - Material Changes

This Firm Brochure, dated 10/15/2019, is our initial disclosure document. We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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Item 4 - Advisory Business

Aii Capital Management, LLC (Adviser or the Firm) was formed in October 2014 and has recently registered with the SEC as an investment adviser with its principal place of business located in Los Angeles, California. Adviser is the investment adviser and general partner ("General Partner") to the Transformation Housing Fund, L.P., a private equity real estate fund (the "Fund"). Adviser is controlled by Michael Chesser, and Apartment Income Investors, Inc. is an affiliate through common ownership.

Advisory Services

Adviser provides its advisory services to separate accounts and a private funds. The firm specializes in identifying investment opportunities in the Class B multifamily real estate market. Adviser seeks to find value-add opportunities in economic growth markets around the county. Adviser leverages the management and expertise of its affiliate company Apartment Income Investors, Inc. (Aii) which was founded in 1994 to invest in value-add multifamily properties on behalf of it's owner and close friends. Over 25 years, Aii has invested in over 70 properties and rehabilitated over 5,000 apartment units.

Transformation Housing Fund, L.P.

Adviser currently serves as the investment adviser and general partner to the Transformation Housing Fund, L.P. a private equity real estate fund. The Funds seeks to invest a limited number of income-producing Class B multifamily properties with asset values of \$3 million to \$40 million and an initial equity requirement of \$1 to \$10 million. The Fund will focus on properties in growing U.S. cities west of the Mississippi with diverse sources of employment and sustainable demand for quality multifamily housing.

Assets Under Management

The firm currently has \$102,000,000 of non-discretionary assets under management and \$2,000,000 of discretionary assets.

Wrap Fee Programs

The firm only provides advisory services to the Fund and separate accounts and does not sponsor or manage any wrap fee programs or offer any other advisory services.

Important Additional Considerations

The information provided herein merely summarizes the detailed information provided by the Fund's offering and organizational documents. Current Fund investors and prospective investors in any new Fund launched by Aii should be aware of the substantial risks associated with investment as well as the terms applicable to such investment. This and other detailed information is provided in the appropriate Fund offering and organizational documents.

Item 5 - Fees and Compensation

Management Fees

Adviser will be paid in accordance with the terms of the operating agreement of the Fund. Generally Adviser will be paid an annual management fee by the Fund, quarterly in advance (the "Management Fee"), equal to 0.75% of the total Fund Committed Capital, plus 1.25% of unreturned capital contributions; provided, however, any and all placement agent fees and associated expenses paid by the Fund will be applied to reduce (but not below zero) the amount of Management Fees paid by the Fund to Adviser.

Acquisition Fees

Adviser (or an affiliate) will be entitled to an acquisition fee equal to 1% of the total purchase price of Real Estate Assets acquired by the Fund or any investment vehicle. The fee will be paid by the entity acquiring the Real Estate Asset. No disposition fee will be charged.

Other Fees Payable to General Partner and Affiliates

Adviser and its affiliates may receive fees for real estate related services provided to the Fund, the Real Estate Assets or entities owning such assets, including development, construction management, property management, leasing and sales services. The fees for these services will be based upon current market rates for such services. To the extent the Adviser subcontracts with any third party for property management services, the fees payable to such third party will be subtracted from any property management fees payable to the Adviser or its affiliates.

Fund Expenses

The Fund will be responsible for all expenses relating to the formation and organization of the Fund and the Adviser, and the operation of the Fund, including (i) all administrative and operating expenses, including (A) legal, accounting, and other professional fees, including any and all fees and disbursements of attorneys relating to Fund matters, fees relating to the preparation of financial and tax reports, portfolio valuations, third party audits and tax returns, (B) taxes, fees or other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fund, (C) litigation costs, (D) costs of director and officer liability insurance and indemnification or extraordinary expenses or liabilities relating to the affairs of the Fund, (E) expenses relating to the organization and operation of alternative investment vehicles and Parallel Funds, and (F) allocated expenses including services subscribed to for investment purposes, and indirect due diligence expenses, (ii) interest, fees and expenses arising out of all permitted borrowings made by the Fund, (iii) Management Fees, (iv) other fees payable by the Fund to the Adviser and its affiliates described in the Offering Memorandum of the Fund; (v) placement agent fees and expenses; (vi) organizational expenses, and (vii) all expenses incurred in holding, developing, negotiating, structuring, acquiring and disposing of the Fund's investments and prospective investments (whether or not consummated), including any financing, legal, accounting, advisory and consulting expenses.

Important Additional Considerations

The information provided herein merely summarizes the detailed information provided by the Fund's offering and organizational documents. Current Fund investors and prospective investors in any new Fund launched by Adviser should be aware of the substantial risks associated with investment as well as the terms applicable to such investment. This and other detailed information is provided in the appropriate Fund offering and organizational documents.

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

As the General Partner to the Fund, Adviser may receive performance-based compensation in the form of carried interest pursuant to the Fund's Limited Partnership Agreement. Distributions of carried interest generally are made from available cash after partners receive a return of their capital contributions and a specified preferred return, compounded annually. The General Partner may then be entitled to a "catch-up" distribution equal to a specified percentage. Thereafter, available cash is distributed in specified percentages to the partners in proportion to their capital contributions and a specified percentage to the General Partner. We may, from time to time, elect to reduce, waive or calculate differently carried interest

in a Fund or we may advise additional funds or clients with different performance-based compensation arrangements.

Because distributions of carried interest may not be made until after distributions of unreturned capital contributions and a specified preferred return, the General Partner may have an incentive to dispose of certain investments early (and stop the accrual of the preferred return), even though the investors in the Fund might achieve a better overall return if the Fund retained the investment for a longer period of time.

Differences in the terms pursuant to which we receive carried interest or other forms of performance-based compensation may result in a conflict of interest when we allocate investment opportunities among the Funds because we will have an incentive to favor the Funds that have higher carried interest or performance-based compensation. It is our policy to allocate investment opportunities among our clients in a fair and equitable manner. If we determine that it would be appropriate for more than one Fund to participate in an investment opportunity, we will seek to allocate the investment opportunity to all of the participating Funds on a fair and equitable basis and in a manner that is permissible under the respective Funds' Limited Partnership Agreements and consistent with the relevant offering documents. Generally, investment opportunities will be allocated pro rata based on each participating Fund's available capital. In the event that it is determined that a pro rata allocation is not possible or prudent, the allocation will be made in a manner that is fair and equitable to all Funds with capital available for the investment. We may also address conflicts by establishing an advisory board to provide recommendations in the event of a conflict of interest.

Performance-based allocation arrangements received by us may create an incentive for us to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. However, Adviser manages the Fund in accordance with the investment strategy disclosed in the Fund's PPM to help ensure that investors are aware of the investment strategy and the risks associated with the strategy. The PPM of the Fund contains further details regarding the incentive allocation and investment risks and strategies.

Item 7 - Types of Clients

As disclosed in Item 4, Adviser exclusively provides advisory services to a Private Equity Real Estate Fund, any future affiliated Parallel Funds, Sidecar Funds and Special Purpose Investment Funds related to the Fund.

Investors in the Fund are subject to minimum investment amounts and suitability requirements as set forth in the Fund PPM and organizational documents.

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

Investment Strategies

The Fund intends to identify and acquire multifamily real estate apartments in the United States that represent an optimum balance of return and safety and offer the greatest reward in exchange for a measurable risk. Upon acquisition, the Fund intends to operate these Real Estate Assets in a manner whereby preservation of capital is a first priority while aiming to increase efficiency and net operating income ("NOI").

Adviser expects to source Real Estate Assets through the firm's relationships in the industry. Adviser and its management team have long, established relationships with brokers, attorneys, bankers, accountants and property managers who frequently introduce our company to multifamily real estate investment opportunities. During the Investment Period, Adviser will refer to the Fund all opportunities consistent with the Fund's strategy.

In most cases, Real Estate Assets will be acquired by the Fund through joint ventures with strategic partners who specialize in the acquisition, renovation and repositioning of stabilized and core-plus, value-add multifamily real estate assets. General Partner management has a long history of working with capital partners and developers of multifamily properties and expects to leverage these relationships for the Fund. In some cases, including where the total capital required for the Real Estate Asset exceeds the Fund diversification limitations, the Adviser will provide opportunities to certain Fund investors and affiliates to co-invest alongside the Fund. The terms of any such co-investment will be set by the Adviser on a basis that the Adviser believes to be fair and reasonable to the Fund.

Side Letters:

We have entered into a formal side letter agreement with a few of our investors in the Fund. Should we determine to accept new investors in our Fund at any time in the future, we may waive or modify the terms of investment for certain large or strategic investors, in side letters or otherwise, including but not necessarily limited to, a waiver or lowering of Management Fees, a waiver or lowering of the Incentive Allocation, providing preferential redemption rights, agreeing to "Key Man" event provisions or granting "Most Favored Nation" status and/or increased transparency or reporting.

Risk of Loss:

An investment in the Fund entails a significant degree of risk and therefore should be undertaken only by investors capable of evaluating the risks of the Fund and bearing the risks such investments represent. Set forth below is a non-exhaustive list of such risks:

1. No established market for potential investments exists.
2. Illiquidity of investments by the Funds.
3. Risks involved with distressed properties.
4. Changes in legal, fiscal, and regulatory regimes.
5. Changes in taxes, rent control and other government regulations.
6. Nature of equity or equity-related investments.
7. Risk of loss of entire investment.
8. Risks related to sale and operation of properties.
9. Dependence on Adviser's and Chesser Group Inc. or Aii's key personnel.
10. Portfolio concentration.
11. Investment environment and market risk.
12. Market volatility risks.
13. Risks involved with hotel properties and rental properties.
14. Risks related to investments in Non-U.S. investments.
15. Hazardous waste and other environmental risks.

Stock markets, bond markets and real estate markets fluctuate substantially over time. As recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets which we or our affiliates manage that may be out of our or our affiliates' control. We cannot guarantee any level of performance or that investors in the Fund will not experience a loss of their account assets. There is no assurance that the Fund will be able to generate

returns or that the returns will be commensurate with the risks inherent in their investment strategy. The marketability and value of any such investment will depend upon many factors beyond the control of the Fund. The expenses of the Fund may exceed their income, and an investor in the Fund could lose the entire amount of its contributed capital. Therefore, an investor should invest in the Fund if the investor can withstand a total loss of its investment. The past investment performance of the Fund or other affiliated funds cannot be taken to guarantee future results of the Fund or any investment in the Fund.

The foregoing summary of risk of loss is not complete and is qualified in its entirety by the information set forth in the Fund offering documents. For additional information concerning risk of loss, please see the Fund offering documents.

Item 9 - Disciplinary Information

Adviser does not have any criminal, civil, administrative, or self-regulatory proceedings to disclose.

Item 10 - Other Financial Industry Activities and Affiliations

Neither Adviser nor any of its management persons is registered, nor do any of them have an application pending to register, as a broker-dealer.

Neither Adviser nor any of its management persons is registered as and do any of them have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor or associated person of the foregoing entities.

As previously disclosed Adviser is affiliated with the following entities:

1. General Partner of the Transformation Housing Fund, L.P., a private equity real estate fund
2. Apartment Income Investors, Inc. an affiliated real estate holding and operating company

Various potential and actual conflicts of interest may arise from the overall investment activities of Adviser and its affiliates. The following briefly summarizes some of these conflicts but is not intended to be an exclusive list of all such conflicts. Any references to Adviser in this section will be deemed to include their respective affiliates, partners, members, shareholders, officers, directors and employees. **Prospective investors are advised to review the Fund PPM for a more extensive description of the risks of investing in the Fund.**

Allocation of Personnel. Adviser and its affiliates will devote such time as shall be necessary to conduct the business affairs of the Funds in an appropriate manner. However, Adviser personnel will work on other projects and, therefore, conflicts may arise in the allocation of personnel. In this regard, however, a core group of real estate professionals will devote a substantial amount of their business time to the business related to the Fund and related entities.

Other Fees. Adviser may receive fees relating to the Funds' investments or from unconsummated transactions (i.e., transactions, directors', consulting, management, closing, topping, break-up and other similar fees). Adviser also engages and retains strategic advisors, consultants, and other similar professionals who are not employees or affiliates of Adviser and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies. Such professionals may or may not be affiliates of Adviser.

Portfolio Company Relationships. The Funds' portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other investment funds managed by Adviser or other Adviser affiliates that, although Adviser determines to be consistent with the requirements of such funds' governing agreements, may not have otherwise been entered into but for the affiliation with Adviser, and which may involve fees and/or servicing payments to Adviser affiliated entities which are not subject to the arrangement fee offset provisions. For example, Adviser may cause portfolio companies to enter into agreements regarding group procurement, employer health program arrangements, benefits management, and other similar operational initiatives that may result in commissions or similar payments related to a portion of the savings achieved by the portfolio company.

Other Aii Funds; Allocation of Investment Opportunities. In compliance with the terms of the Fund PPMs and Limited Partnership Agreements and the Adviser conflicts policy, Adviser and its affiliates do currently and may in the future provide investment advice with respect to more than one investment fund (including funds in existence as of the date hereof and those that may be formed in the future, collectively, "Other Funds"). Accordingly, investment opportunities may be allocated by Adviser among such Other Funds in a manner consistent with the PPM and the Limited Partnership Agreements for each Fund and Adviser's conflicts policy. This circumstance may in particular occur during the end of the investment period for one Fund and the beginning of the investment period of another Fund.

Co-Investments. Pursuant to the terms of the PPM and Limited Partnership Agreement of the Fund, the General Partner may elect to cause the Fund to make co-investments in one or more investment properties with third parties or affiliates of Adviser, the General Partners and/or the Funds where Adviser determines that either the third party provides an investment opportunity, operating capabilities or other strategic competitive opportunities or advantages, or the third party provides additional capital.

Service Providers. The Fund's service providers (including lenders, depository banks, brokers, attorneys, consultants, and investment banking firms) may be affiliates of Adviser, investors in the Fund and/or sources of investment opportunities and counterparties therein. We may have an incentive to select these service providers either to generate additional fee income or investment opportunities for us. Fees paid to service providers may constitute Fund expenses that are payable prior to making any distributions to Fund investors. A conflict of interest may cause us to hold these service providers to a lower standard of performance. Notwithstanding the foregoing, investment transactions for the Fund that require the use of a service provider, will generally be allocated to service providers on the basis of best execution (and possibly to a lesser extent in consideration of such service provider's provision of certain investment-related services and/or payments of the costs of investment-related research that the General Partner believes to be of benefit to the Fund).

The members of Adviser and the Underwriting Committee are all investors in the Fund. Adviser may enter into "side letters" with investors in the Fund, which allow for certain additional rights in the event of tax, regulatory or legal circumstances applicable to such investors. A more detailed description of applicable conflicts of interest is set forth in the PPM of the Fund.

Item 11 - Code of Ethics, Participation in Client Transactions and Personal Trading

Adviser has adopted the Code of Ethics (the "Code") that sets forth standards of integrity and business conduct we expect all Adviser personnel to uphold and follow and requires all employees to comply with relevant federal securities laws.

The Code includes the following:

- Requirements related to confidentiality;
- Ethical conduct premised on fundamental principles of openness, integrity, honesty and trust;
- Pre-clearance of outside business activities; and
- Protection of persons who engage in “whistle blowing” activities from retaliation.
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On an annual basis, Adviser requires all employees to certify that they are in compliance with the Code.

The affiliates of Adviser are involved in different services and there are potential conflicts of interest which may arise. Please see Item 10 – Other Financial Industry Activities & Affiliations for a list of investment related potential conflicts.

Adviser’s and its affiliate’s related persons may from time to time have bought or sold, or may subsequently buy or sell, for their personal accounts, real estate securities or other assets which may also be purchased or sold for the account of our clients. On occasion, a Adviser related person may co-invest in a real estate investment along with a Fund. Adviser and its related personnel are subject to guidelines governing the ability to trade in personal accounts.

These policies are designed to comply with SEC requirements that registered investment advisers have a Code of Ethics. Adviser’s Code is available for review upon request. You may request a copy of Adviser’s Code by contacting Adviser’s Chief Compliance Officer, Michael Chesser: (805) 604-2644; mchesser@aiiproperties.com.

Item 12 - Brokerage Practices

Adviser has the authority to originate and recommend to the Fund investment opportunities consistent with the purposes of the Fund, monitor and evaluate investments and provide such other services related thereto as the Fund reasonably request. Securities brokers are selected primarily on the basis of cost, capacity, ability and dependability to close on a timely basis, market intelligence, reputation, knowledge of the asset, buyer contact list, recent transactions, fee proposal, execution capability and trading expertise consistent with the effective execution of the transaction. The determination of commission rates and other transaction costs at which securities transactions for the Fund are to be executed will be negotiated by Adviser.

Item 13 - Review of Accounts

Review of Accounts

Currently, the only account under the supervision of Adviser is the Fund. The Fund’s accounts and investment positions are monitored by Adviser personnel on a regular and current basis.

Adviser’s Investment Committee (the “Investment Committee”) meets as necessary to review general portfolio composition, investment opportunities, market conditions, potential conflicts, and recent trading activities. The Investment Committee currently consists of at least three persons. Adviser might periodically review on an expedited basis the assets of a Fund following a unique occurrence in the financial industry or market generally.

Reports to Clients

Investors in the Fund generally will receive quarterly reports which will include capital balance and Fund performance statistics. Investors also will receive annual audited financial statements for the Fund.

Item 14 - Client Referrals and Other Compensation

Placement Agent

Adviser has entered into a placement agent agreement with Calton & Associates (Calton), a registered Broker/Dealer, member FINRA & SIPC. Calton serves as a non-exclusive placement agent for the Fund and receives a quarterly retainer of \$25,000 and any Separate Accounts. The agreement also obliged Adviser to pay Calton an amount equal to 1.5% of all capital commitments received and accepted by the Transformation Housing Fund, L.P. plus 5% of the Adviser's "carried interest" charged to the Fund.

Other Compensation

Adviser does not accept or allow its related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-Client in conjunction with the advisory services it provides to Clients.

Item 15 – Custody

In connection with the management of investments for certain investors, Adviser may have, or may be deemed to have, custody of certain funds or securities of its clients. Rule 206(4)-2 (the "Custody Rule") under the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions).

Almost all of the assets under management by Adviser are "privately offered securities" as defined by the Custody Rule. All other Fund assets are held in custody by unaffiliated broker/dealers or banks acting in the capacity as "qualified custodians".

Accordingly, Adviser is deemed to have custody of client funds or securities. Adviser has developed procedures that ensure the safeguarding and protection of the assets.

The Fund is subject to an annual audit performed by a nationally recognized public accounting firm and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and generally distributed within 120 days of the Fund's fiscal year end.

Item 16 - Investment Discretion

Adviser maintains the authority to manage the Fund on a discretionary basis, in accordance with the investment guidelines, limitations, other provisions and terms set forth in the Fund's Limited Partnership Agreement.

Item 17 - Voting Client Securities

Rule 206(4)-6 under the Advisers Act (the “Rule”) requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Because Adviser may be deemed to have authority to vote proxies relating to the companies in which its clients invest, Adviser has adopted a set of policies and procedures (together, the “Policy”) in compliance with the Rule.

To the extent that Adviser exercises or is deemed to be exercising voting authority over its clients’ securities, the Policy is designed and implemented in a manner reasonably expected to ensure that voting with respect to proxy proposals, amendments, consents or resolutions (collectively, “proxies”) is exercised in a manner that serves the best interest of the clients, as determined by Adviser in its sole discretion.

From time to time, conflicts may arise between the interests of the investor, on the one hand, and the interests of Adviser or its affiliates, on the other hand. If Adviser determines that it has, or may be perceived to have, a conflict of interest when voting a proxy, Adviser will address matters involving such conflicts of interest on a case-by-case basis in a fair and equitable manner, subject to legal, regulatory, contractual or other applicable considerations, and in compliance with Adviser’s conflicts policy. Adviser, in its sole discretion, may elect not to vote a proxy if unduly burdensome.

Investors may request a copy of the Policy and the voting records relating to proxies as provided by the Rule by contacting Adviser’s Chief Compliance Officer.

Item 18 - Financial Information

Adviser has never filed for bankruptcy and is not aware of any financial condition reasonably likely to impair its ability to meet its contractual commitment to its investors.