

# PART 2A OF FORM ADV: Firm Brochure

March 20, 2024

This brochure provides information about the qualifications and business practices of American Realty Advisors, LLC (“ARA”). If you have any questions about the contents of this brochure, please contact us at 213.233.5700 or [jbutterfield@aracapital.com](mailto:jbutterfield@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 is also available on the [SEC’s website at www.adviserinfo.sec.gov](https://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.

**ITEM 2: MATERIAL CHANGES**

ARA routinely makes changes to its brochure in an effort to improve and clarify the descriptions of its business practices and compliance policy and procedures or in response to evolving industry and firm practices. There have been no material changes made since the March 22, 2023 version of the Brochure.

**ITEM 3:      TABLE OF CONTENTS**

Item 2:	MATERIAL CHANGES.....	2
Item 3:	TABLE OF CONTENTS.....	3
Item 4:	ADVISORY BUSINESS .....	4
Item 5:	FEES AND COMPENSATION.....	5
Item 6:	PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	9
Item 7:	TYPES OF CLIENTS.....	10
Item 8:	METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	11
Item 9:	DISCIPLINARY INFORMATION.....	21
Item 10:	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	21
Item 11:	CODE OF ETHICS; PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	22
Item 12:	BROKERAGE PRACTICES .....	24
Item 13:	REVIEW OF ACCOUNTS.....	24
Item 14:	CLIENT REFERRALS AND OTHER COMPENSATION .....	25
Item 15:	CUSTODY .....	25
Item 16:	INVESTMENT DISCRETION.....	25
Item 17:	VOTING CLIENT SECURITIES .....	26
Item 18:	FINANCIAL INFORMATION .....	26

#### **ITEM 4:      ADVISORY BUSINESS**

ARA was founded in 1988 and has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), since 1990. ARA provides real estate investment management services primarily to institutional clients such as pension plans, trusts, endowments, foundations, and similar entities. 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. Clients also engage ARA to manage their real estate separate accounts. The amount of client assets ARA managed as of December 31, 2023 on a discretionary basis and non-discretionary basis were \$11,758,402,626 and \$0, respectively.

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 residential properties. ARA also makes debt investments, 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 and redevelopment of real estate assets.

ARA 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, but are not limited to, commercial paper, money market funds, certificates of deposit or U.S. Government securities. ARA has established a non-discretionary account on behalf of certain of its clients with a broker-dealer to allow it to make such Short-Term Investments. ARA may also utilize a bank or registered investment adviser for that purpose. 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 serves 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 also serves 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.

On occasion, ARA 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 also generally 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.

ARA does not currently engage in wrap fee programs.

The Iezman Family Trust currently owns indirectly 90% of the membership interests of the firm. Under the terms of the Iezman Family Trust agreement, Stanley L. Iezman, the firm's Chairman & Chief Executive Officer, has exclusive voting control over such membership interests. 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.

## **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 0.20% to 0.85% of the value of the assets under management, depending on the nature of the separate account mandate, but may fall outside of that range depending on unique circumstances. 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.

In addition to the asset management fee, separate account clients may pay other fees, such as takeover, due diligence, real estate acquisition, incentive, workout, loan, renovation, leasing, or disposition fees pursuant to the terms negotiated by such clients.

Asset management fees for separate account clients are typically billed either on a monthly or a quarterly basis in arrears. These fees, along with the other fees mentioned above, are paid by the 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 and deducted from amounts distributable to investors. 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 based solely on the value of the vehicle's invested assets excluding cash held by the vehicle.

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. These fees are paid in the manner specified in the governing documents of such vehicles.

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 sponsors. Investors in this vehicle who made a capital commitment below a breakpoint (established to determine the point 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 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. 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.

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 do 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**

Hourly fees are charged for certain services provided to consulting services clients and QPAM engagements at rates ranging from \$500 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 or QPAM services are agreed upon with some clients. A portion of the fees may be due at the time the engagement with the balance of the fees 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.

ARA bears its own costs of compensation of its officers and employees and related overhead expenses, except that 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, tax, 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. 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.

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 or its 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 legal, accounting, tax, appraisal, environmental, social and governance plus resiliency ("corporate responsibility"), 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) costs and expenses related to indemnities, taxes or litigation, (vi) in certain circumstances, costs and expenses related to raising equity capital; (vii) costs related to software systems used to more effectively address matters benefiting these activities of the pooled investment vehicles; and (viii) costs and expenses related to administration of the pooled investment vehicles and separate accounts, and accounting and IT services provided to these vehicles and separate accounts. Expenses associated with ARA's compliance with the Advisers Act, such as preparation and updating of the Form ADV, are borne by ARA.

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.



Allocation and reimbursement to ARA for any expenses incurred by ARA or its employees 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.

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

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

ARA believes that any potential conflicts of interest that might otherwise exist due to performance-based fee accounts are mitigated by ARA's rotational allocation of investments and its consistent 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 separate account portfolios and pooled investment vehicles is based on the amount of time a separate account portfolio or a pooled investment vehicle with funds available to make an investment (an "investing client") has been waiting for an allocation of a potential investment over other investing clients. In the event that a potential investment is initially allocated to an investing client and after the initial allocation, it is determined that the investment is not appropriate for the investing client to which it was initially allocated or in the event a potential investment is initially rejected by all investing clients but is later resubmitted for allocation, the potential investment will be reallocated at a subsequent allocation meeting based on the then current allocation queue. Given this system, investment opportunities 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 investment client 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 of its investment management agreement, which is typically the date on which sufficient investors have executed subscription agreements to allow the pooled investment vehicle to conduct an initial closing.

A separate account or pooled investment vehicle will be removed from the allocation queue when it does not have sufficient funds available to make a new investment and is therefore no longer an investing client. Such separate account or pooled investment vehicle will rejoin the investment queue as of the date it is again able to make a new investment (e.g., as a result of the sale of an asset, pay off a loan if the account makes debt investments, or due to a new allocation of funds).

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, subject to its scope of authority. 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 and members of the Legal/Compliance Department, 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, such pension plans, various health and welfare plans, trusts, endowments, foundations, and similar institutional entities have invested in pooled investment vehicles where ARA serves as a real estate investment manager.

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.

Investment criteria considered in connection with the selection of assets for a particular client portfolio typically include but are not limited to: current and potential cash flow; current investment value and future appreciation potential; preservation of capital; highest and best use of a real estate asset; corporate responsibility matters (subject to ARA's fiduciary obligations and applicable law); 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, tax, legal, corporate responsibility matters, 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. 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 on behalf of its clients. Such investments are made through a broker-dealer on a non-discretionary basis. ARA may elect to make the transactions through a bank or investment adviser as well as make them on a discretionary investment authority in which case the authority will be subject to certain investment guidelines.

ARA's Short-Term Investment strategy on behalf of its clients focuses on the preservation of capital first with incremental yield pickup second. Hence, ARA invests a client's excess cash in investment grade short duration securities only. ARA reviews rating agency analysis and other publicly available information regarding the creditworthiness of the obligor and the particular security. Additionally, ARA relies on in-house expertise to manage credit and interest rate risk.

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 its clients' portfolios.

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. Additionally, ARA's ability to conduct its business effectively is subject to risks that the internal processes and systems designed to operate its business and investments are inadequate or that persons tasked with managing such processes and systems do not properly carry out their functions.

### **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 primarily 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 in real estate or real estate related investments.

### **Valuation of Real Estate Investments**

ARA, on behalf of its clients, invests in private market real estate and real estate related investments for which no liquid public market exists. The fair values for such investments can be volatile and may not be readily ascertainable. The estimated fair value of real estate and real estate related investments is determined as the price that is expected to be received if the asset was sold to a market participant assuming the highest and best use of each asset on a given date. Although ARA has typically engaged third party valuation consultants to determine the value of its clients' real estate investments and real estate related investments, all valuations of such investments involve subjective judgments, as the actual market price can only be determined by negotiations between independent parties in a sales transaction and the difference could be material.

### **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 but are not limited to:

- 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, the 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, when desired.

### **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:

- the availability and timely receipt of the desired zoning,
- timely receipt of desired 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, labor conditions or material shortages), and

- the availability of both construction and permanent financing on favorable terms.

Issues as those noted above could result in substantial unanticipated delays or expenses. These issues could prevent the timely completion of the intended 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 seek to 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 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.

### **Risks Associated with Joint Ventures**

ARA's clients may hold investments in joint ventures with third parties. Joint venture investments involve various risks, including the risk that ARA's clients will not be able to implement investment decisions or exit strategies because of limitations on the control of the property under applicable agreements with joint venture partners, the risk that a joint venture partner may experience financial difficulties or may at any time have economic or business interests or goals which are inconsistent with those of ARA's clients, the risk that joint venture partners may be in a position to take action contrary to ARA's clients' objectives, the risk of liability based upon the actions of a joint venture partner and the risk of disputes or litigation with such partners.

### **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, such risk may be increased by events such as a global pandemic. In the event of default by a significant number of tenants, delays may occur and substantial costs may be incurred in enforcing landlord's



rights. The property's performance may also be adversely affected if ARA on behalf of its clients is unable to lease and re-lease, on economically favorable terms, a significant amount of space in the clients' real estate properties. The number of real estate properties involving similar types of use in a market or submarket could adversely affect both the ability to lease and lease-up the property and the rental rates that can be obtained in new leases.

### **Risks Related to Financing**

In order to fund new real estate investments and capital improvements related to existing investments for its clients, ARA must spend capital, which can be generated from operations, borrowings, sales of assets, capital raising or from other third-party sources. The availability of funds for new investments and maintenance of existing investments depends in part on capital market and liquidity factors, over which ARA can exert little control, as well as on client liquidity, which, in the case of the pooled investment vehicles, may be influenced by investor redemption requests.

ARA's activities are subject to the risk that cash flows from the investments made on behalf of its clients may be insufficient to meet required payments of principal and interest and earnings may be insufficient to maintain compliance with debt obligations. In addition, payments of principal and interest on borrowings may leave insufficient cash resources to pay operating expenses and meet all other obligations. Financing risks also include lack of available or suitable refinancing or replacement financing as existing loans mature and the cost or availability of required interest rate caps or swap instruments. Given the existence of the risks that ARA's clients may not be able to pay the ongoing costs of debt service, hedging costs, or be able to refinance indebtedness (or negotiate extensions) on certain properties at maturity due to business and market factors beyond ARA's control, it is possible, in such cases, that a default on such debt could occur unless ARA can obtain, on the applicable client's behalf, a modification of the terms of the debt. A default may permit the lenders to foreclose on the applicable property or require tendering title of the affected property to the lender in lieu of foreclosure. Proceeds from any disposition of a foreclosed property may not be sufficient to repay the full amount of the underlying debt. If, in some cases, ARA is unable to cause the client to extend, refinance or repay the debt as it comes due, the client's business, financial condition and operating results may be materially and adversely affected. If ARA is unable to cause the client to refinance debt as it matures on acceptable terms, or at all, the client may need to dispose of one or more of its investments on disadvantageous terms. Furthermore, even if ARA is able, on behalf of the client, to obtain extensions on or refinance the client's existing debt, such extensions or new debt are likely to be on terms that may be materially less favorable than the current terms of the related indebtedness and include operational and financial covenants.

### **Concentrations of Market, Interest Rate and Credit Risk**

Concentrations of market, interest rate and credit risk may exist with respect to ARA investments and its other assets and liabilities made on behalf of its clients. Market risk includes a potential loss as a result of changes in the fair value of investments. ARA may



also be subject to risk associated with concentrations of investments in geographic regions and industries.

Interest rate risk includes the risk associated with changes in prevailing interest rates. In the normal course of its activities, ARA's clients are exposed to the effect of interest rate changes. Changes in interest rates will affect operating results, as such changes will impact the financing costs of any debt held by ARA's clients. Borrowings may bear interest at variable rates. Benchmark rates and credit spreads on which variable rate debts are based have materially increased and there can be no assurance that these rates will not increase further in the future, thereby increasing interest expense.

To limit interest rate exposure on behalf of its clients, ARA may employ a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative instruments may also experience variations in cost or availability depending on market conditions. Additionally, the cost of acquiring interest rate caps, which ARA is required to obtain with respect to certain of its client's existing floating rate secured loans (and which ARA expects will be required to obtain similar loans to refinance the maturing debt), has risen sharply and there is no assurance that ARA will be able to economically justify the cost to its clients to hedge such exposure. As a result, ARA, on behalf of such clients, may seek alternative interest rate risk mitigation with lenders of secured debt, including interest rate swaps, cash deposits and the like.

Credit risk also includes the possibility that a loss may occur from the failure of counterparties or issuers to make payments according to the terms of a contract.

### **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 seeks 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. 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, and systems of certain third-party software providers, including information related to investors in the pooled investment vehicles, and personal information relating to ARA's employees. The secure transmission, processing and maintenance of this information is critical to ARA's operations. Although ARA utilizes cybersecurity measures appropriate for its business, ARA remains vulnerable to attacks by outsiders or breach due to employee error or wrongdoing. In addition, although ARA seeks to ensure that any third-party providers in possession of ARA data have sufficient cybersecurity controls in place to protect such information, ARA expects that they also remain vulnerable to attack in the same manner as ARA. Any breach could compromise ARA's or such third-party's systems, with the risk that the accessed information could be publicly disclosed, lost or stolen. This would likely cause a disruption in operations, legal claims, regulatory proceedings or otherwise damage ARA's or the clients' 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 on its clients' behalf. It may also increase the cost of acquiring, holding or divesting investments and reduce the profitability of such investments.

### **Risks Related to Corporate Responsibility Matters**

ARA, in its discretion, has taken, and may continue to take, into account corporate responsibility considerations to the extent doing so is consistent with its fiduciary obligations and applicable law. Consequently, in certain circumstances ARA may not make or not recommend the making of investments when it would otherwise have done so, which could adversely affect the performance of a client's portfolio. On the other hand, ARA may determine not to take such considerations into account. The extent to which ARA takes corporate responsibility considerations into account will vary from client portfolio to client portfolio, based on, among other things, the client portfolio's investment objective, investment strategies, investment restrictions, and applicable law. In evaluating an investment, ARA is dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, which could cause ARA to incorrectly assess a potential investment's corporate responsibility attributes and/or related risks and opportunities.

While corporate responsibility is only one of the many factors ARA will consider in making an investment on its clients' behalf, there is no guarantee that ARA will successfully implement and make investments that create positive impact while enhancing value and achieving financial returns. Corporate responsibility initiatives may not achieve the desired

financial and social results, or the market or society may not view any such changes as desirable. Successful engagement efforts on the part of ARA will depend on ARA's skill in properly identifying and analyzing material corporate responsibility and other factors and their impact-related value, and there can be no assurance that the strategy or techniques employed will be successful.

### **Risks Related to Pandemics and Public Health Emergencies**

A pandemic, such as the 2020 worldwide COVID-19 pandemic, or other public health emergency may affect ARA's business operations and the operations, financial results and valuation of the real estate investments made on ARA's clients' behalf. Such a pandemic or public health emergency may also affect the liquidity of such investments, and for real estate development and redevelopment investments, it may impede timely construction due to shortages of supplies and parts and the access of labor in times of quarantine.

### **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**

Other than the service by two ARA subsidiaries as general partner of two pooled investment vehicles for which ARA serves as investment manager and one ARA subsidiary that serves as the manager of certain property title holding entities, 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 separate account 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 except for de minimis holdings of ownership interests in any such service providers whose interests are publicly-traded.

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 separate account or pooled investment vehicle, performed either by ARA or its affiliates. In the event this should occur, 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, and in the future may select, other unaffiliated investment advisers who on occasion may manage Short-Term Investments made in cash equivalents. ARA has not and does not intend to 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 as a custodian for cash generated in connection with investments made by ARA on behalf of its separate account 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 and certain other individuals who also are deemed "Access Persons" as defined in the Advisers Act. 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 itself or its clients, in securities that trade on exchanges other than certain Short-Term Investments. Nevertheless, ARAs' Code contains several restrictions and procedures designed to mitigate 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 occurred during the quarter, (iii) filing of initial and annual holdings reports; (iv) a prohibition against personally acquiring securities in 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 personal securities transactions is handled by ARA's Compliance Department 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 any and all political contributions made by an employee and prohibits certain other political contributions by an employee to allow ARA to comply with



federal, state and local laws. Employees who are “covered associates” under Rule 206(4)-5 of the Advisers Act must certify compliance with the policy on a quarterly basis.

A copy of ARA’s Code will be provided to any current 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 separate account client or pooled investment vehicle, in which ARA or an employee or affiliate has a material financial interest.

### **Co-Investment**

ARA and its affiliates and employees have invested in the past, and may invest in the future, in certain of the pooled investment vehicles sponsored by ARA along with the investors. In addition, ARA and its affiliates and employees have invested in the past, and may invest in the future, directly in the portfolio investments made by these investment vehicles. Additional pooled investment vehicles may be sponsored by ARA in the future that may also allow for these possibilities. 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 pooled investment vehicles 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 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. Two of ARA’s 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 pooled investment vehicles sponsored by ARA, they would invest on the same terms as any other investor although ARA may elect to waive their asset management fee and other fee obligations. Thus, we believe, this mitigates 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 the following in Short-Term Investments: (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 a broker-dealer to invest such funds in Short-Term Investments and may use banks or investment advisers for that purpose in the future. 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 except with respect to 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 account clients and pooled investment vehicles are also reviewed by ARA's Investment Committee on a periodic basis. For example, the Investment Committee 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 statements, which include unaudited financial statements, and a calculation of income, appreciation and total return (gross and net of fees). In addition, upon request, ARA will participate in meetings with its clients.

Investors in the pooled investment vehicles sponsored by ARA receive written quarterly reports, which include unaudited financial statements, and a calculation of income, appreciation and total returns (gross and net of fees). In addition, investors receive a quarterly investor statement for their account which reflects their beginning and ending net asset value as well as fees paid and their pro rata portion of fund result. Furthermore, investors receive, on an annual basis, copies of the audited financial statements. Upon request, ARA will participate in meetings with investors.



#### **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 direct or indirect members, nor any of its employees or officers, 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)-1 under the Advisers 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 are 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 clients and incorporated in such agreements. 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 assets. ARA’s management

discretion includes the ability to make decisions related to capital improvements and leverage on the assets.

ARA utilizes a third-party broker-dealer to invest excess client cash in Short-Term Investments on a non-discretionary basis. ARA may also engage a third party bank or investment adviser to make such investments as well as engage such firms to make such investments on a discretionary basis which will still be governed by investment guidelines established by ARA. Such Short-Term Investments are made pending investment of such cash 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 separate account 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 although it maintains a proxy voting policy in the event one is needed in the future.

#### **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 require prepayment of its fees.

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 never filed for bankruptcy.