

Firm Brochure

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of ACA II Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 201-2500. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registering with the United States Securities and Exchange Commission as an investment adviser does not imply a certain level of skill or training on the part of ACA II Advisors, LLC or its affiliates.

Additional information about ACA II Advisors, LLC is available on the SEC's website at www.adviserinfo.sec.gov.

March 31, 2013

Item 2 Material Changes

Since our initial filing of Form ADV on March 31, 2012, we have made minor updates throughout this Part 2A to reflect “separate account” arrangements that we may enter into from time to time. We consider other revisions we have made to this Part 2A to be in the nature of minor, clarifying changes to our Form ADV disclosures rather than indicative of material changes to our business.

Item 3 Table of Contents

Item 1:	Cover Page	i
Item 2:	Material Changes.....	ii
Item 3:	Table of Contents	iii
Item 4:	Advisory Business	1
Item 5:	Fees and Compensation.....	3
Item 6:	Performance-Based Fees and Side-By-Side Management	5
Item 7:	Types of Clients	6
Item 8:	Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9:	Disciplinary Information	12
Item 10:	Other Financial Industry Activities and Affiliations	13
Item 11:	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	14
Item 12:	Brokerage Practices	15
Item 13:	Review of Accounts	16
Item 14:	Client Referrals and Other Compensation	17
Item 15:	Custody.....	18
Item 16:	Investment Discretion	19
Item 17:	Voting Client Securities	20
Item 18:	Financial Information	21

Item 4 Advisory Business

Summary

ACA II Advisors, LLC provides real-estate related investment management services together with the “Relying Advisors” referred to on Schedule D of our Form ADV (collectively, “ACA Advisors” or “we” or “us” or “our”). We provide such services primarily to the privately offered pooled investment funds described on Schedule D of our Form ADV (each, a “Fund”; collectively, the “ACA Funds” or the “Funds”).

The ACA Funds invest in real estate and real estate-related assets and entities, primarily in Japan and China. In addition to advising the ACA Funds, from time to time the ACA Advisors enter into arrangements to manage one or more discretionary or non-discretionary separate accounts (collectively with the ACA Funds, “Clients”). Each Client is managed in accordance with its governing documents.

We were established in 2001 in connection with the launch of the first ACA Fund. Each of the ACA Advisors entities is a wholly-owned subsidiary of Aetos Capital, LP (“Aetos Capital”), an independent investment management firm offering institutional and high net worth investors real estate and absolute return investment advisory services. Aetos Capital has one partner that owns greater than 25% of its equity (a “principal owner”), which is The Allwin Family, LLC. The Allwin Family, LLC has two principal owners, which are the estate of James Allwin, the founder of Aetos Capital, who passed away in 2007, and the James M. Allwin 2001 Children’s Trust.

The Aetos Capital real estate team has offices in New York, Tokyo, Hong Kong and Beijing. ACA Advisors has an investment committee that reviews all investment acquisition recommendations made by Aetos Japan and Aetos China (each as defined below) and is responsible for all investment acquisition decisions.

New York

Our senior management team is based in New York. The senior management team oversees all of the operations of the Aetos Japan and Aetos China teams described below, and is responsible for all investment recommendations to our Clients. In addition, ACA Advisors provides a wide variety of services to Clients including: (i) investor relations and fundraising, (ii) investment monitoring, (iii) fund finance and reporting and (iv) tax and legal.

Japan

Our affiliate Aetos Japan, LLC (“Aetos Japan”) employs real estate professionals focused on investments in Japan. Aetos Japan provides a full range of acquisition and asset management services, including investment sourcing, acquisition structuring, leasing and repositioning, disposition planning, and pricing recommendations on purchase and sale.

China

Our affiliates Aetos Capital Asia Limited and ACA II Advisors (Beijing) Limited (collectively, “Aetos China”) employ real estate professionals focused on investments in China. Aetos China provides a full range of acquisition and asset management services, including investment sourcing and due diligence, acquisition structuring and closing, strategic planning and investment monitoring.

Customized Advisory Services

Our advisory services are tailored to meet the specific investment objectives and requirements set forth in the governing documents applicable to each Client (e.g., partnership agreement, bylaws, investment management agreement). Such documents also typically impose certain investment restrictions such as the percentage of a Client's assets that may be invested in a single asset.

Assets Under Management

As of December 31, 2012, ACA Advisors had approximately \$1,430,173,135 of assets under management, of which \$1,148,180,075 was managed on a discretionary basis and \$281,993,060 was managed on a non-discretionary basis.

Item 5 Fees and Compensation

For performing investment advisory services, the Advisors receive management fees and certain affiliated entities serving as general partner of a Fund (or in a similar capacity) are entitled to receive Carried Interest (as defined below). A brief summary of such fees and the manner of payment follows. In our discretion, we may waive or reduce the fees or Carried Interest applicable to one or more Clients or investors in a Fund or agree to offset management fees by certain other amounts we may receive in respect of the investment advisory services we provide. The specific fees applicable to each Client are described in detail in such Client's offering and governing documents.

Management Fees

We are paid a management fee by each Fund at an annualized rate not exceeding 1.50%. The management fee is paid quarterly in advance and is deducted from Fund assets. For separate accounts, management fees may be collected in a different manner as agreed upon with the Client. In certain cases, the fees we and our asset management affiliates receive are based upon our determination of the current market value of Client assets, presenting an inherent conflict of interest. To mitigate such conflict, we have developed detailed valuation procedures and subject our valuations to an annual third-party audit.

Carried Interest

An affiliate of the Advisors is entitled to a distribution generally not exceeding 20% of gains realized upon the disposition of an investment after Fund investors have achieved an agreed-upon internal rate of return ("Carried Interest"). A Fund's governing documents may provide that a portion of Carried Interest payments may be required to be placed in a reserve account and subsequently returned to the Fund in the event Fund investors have not received a return of their invested capital plus a preferred return thereon.

Expenses

Each Client bears all of its own operating and investment-related expenses, including without limitation expenses related to the Client's organization; borrowing; investment structuring, purchase, sale and financing; legal, audit and fund administration and the engagement of third party service providers, in each case subject to any limitations set forth in the Client's governing documents and investment advisory agreement with us.

In addition, Aetos Japan and Aetos China routinely provide Clients with other services that would otherwise be performed by an unaffiliated third party (such as real estate asset management, loan servicing, accounting services, secondments of employees and other similar services), at market rates and consistent with the provisions of the Client's governing agreements and applicable law relating to affiliate transactions.

Prepayment of Fees

As indicated above, management fees are typically charged quarterly in advance. In some cases, a Client may have the right to terminate an investment management agreement with us. Such termination generally requires a notice of three calendar months or longer. In the event an investment management agreement is validly terminated in accordance with its terms, the final installment of management fees would be charged only through the date of termination. In light of the notice period for termination we do not contemplate that a Client would be entitled to a refund of management fees as a result of

termination. However, in the event we have received management fees exceeding the amount of accrued fees through the date of termination such excess amount would be credited to the relevant Client in accordance with its governing documents and applicable law.

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

One or more of our affiliates serving as general partner of a Client or in a similar capacity may receive Carried Interest based on the performance of such Client. The potential to receive Carried Interest payments may create an incentive for us to make investment decisions that are riskier or more speculative than would be made under a different fee arrangement.

To the extent an investment is suitable for multiple active Funds or other Clients, it is allocated in a fair and equitable manner pursuant to a methodology that is agreed upon in advance between ACA Advisors and the relevant Clients. In the event an investment opportunity is not suitable for a particular Fund or Client (as determined by us or the Client, as the case may be) it may be offered to other Clients. In addition, we may offer co-investment opportunities to third parties if we determine that, for diversification or other reasons, it may not be prudent for existing Funds or Clients to invest the entire amount necessary to fund an investment.

Certain Clients have and may have in the future varying rates and structures of fees and performance-based compensation and an incentive may arise for us to disproportionately allocate time, services or functions to Clients paying an effective higher rate of compensation. Each Client's governing documents set forth specific procedures designed to ensure that all investors are treated fairly and to prevent such potential conflict from unduly influencing the allocation of time or investment opportunities among Clients, including but not limited to provisions outlining the parameters of our ability to launch new Funds while current Client funds are being actively invested.

Item 7 Types of Clients

Our Clients are privately offered pooled investment vehicles and occasionally a special purpose vehicle constituting a separate account. Based on the ownership of such vehicles and the manner of offering of their securities, our Clients are not subject to registration under the Investment Company Act of 1940 (the “1940 Act”) and are therefore not subject to various provisions thereof. Shares in such investment vehicles are available for purchase only by investors who were “accredited investors” as defined in Regulation D of the U.S. Securities Act of 1933 and, in the case of most Clients, “qualified purchasers” for purposes of Section 3(c)(7) of the 1940 Act. Clients typically require a minimum capital commitment from each investor, such as \$5,000,000 (or substantially less in the case of certain affiliated co-investment vehicles). However, a Fund’s offering documents typically provide that the Fund may accept lesser commitments in the discretion of the general partner (or similar party).

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

Investment Strategy

As further discussed in the offering documents of each Fund, the Funds were formed to invest in (i) individual real estate assets and real estate portfolios, (ii) real estate development, property management, asset management and similar business ventures, (iii) mortgages and real estate-related loans, including mezzanine debt instruments, (iv) equity, debt or other interests secured by or related to real estate or issued by an entity or entities that own principally real estate or real estate-related assets, (v) equity, debt or other interests in entities with substantial real estate holdings and (vi) sub-performing and non-performing corporate unsecured debt and debt portfolios of entities that own principally real estate or real estate related assets, primarily in Japan and to a lesser extent in other countries in Asia.

The Funds other than Aetos Capital Asia IV Strategic Partners, LP are fully invested and no longer making new investments.

In Japan, the Funds have invested primarily in real estate assets and real estate-related companies which ACA Advisors believed to be fundamentally mispriced in the market due to the distressed nature of the assets or in situations where ACA Advisors believed that the transaction dynamics offered opportunities to add value through active asset management strategies.

In China, the Funds have invested primarily in residential and mixed-use development joint ventures in Tier II and III cities and a budget hotel company. Certain Funds also invested in several real estate assets in South Korea.

Each Fund provided offering documents to prospective investors prior to closing containing the following information (or similar information) concerning ACA Advisors' methods of analysis and the risks associated with an investment in a Fund.

Methods of Analysis

Prior to making an investment decision, ACA Advisors evaluates its ability to add value through various asset management strategies and analyzes potential exit strategies. ACA Advisors employs a disciplined process for acquiring, managing and disposing of investments. By utilizing an integrated approach in which the disposition strategy is an integral part of the investment and pricing decisions, ACA Advisors seeks to mitigate risks while targeting attractive returns. Key elements of the ACA Advisors investment process are as follows.

Sourcing

Aetos Japan, subject to the supervision of ACA Advisors, sources investments in Japan through its Tokyo-based team, utilizing a network of relationships in the real estate community and with banks, other lenders and financial institutions, servicers, brokers, bankruptcy court officials, securities firms, corporations and other sources of investment product. Aetos China, subject to the supervision of ACA Advisors, sources investments in China through its Hong Kong and Beijing-based professionals utilizing a network of relationships with Chinese developers, real estate operating companies, and financial institutions.

Disciplined Underwriting Methodology

ACA Advisors' due diligence process includes conservatively projecting future cash flow proceeds and analyzing certain possible downside scenarios before making any pricing or investing decisions.

Pricing and Investment Decisions

In pricing investments and making investment decisions, ACA Advisors relies on input from the senior management of Aetos Japan and Aetos China. Aetos Japan and Aetos China present investment and pricing recommendations to the ACA Advisors Investment Committee, which is responsible for all investment and pricing decisions. In making these decisions, the ACA Advisors Investment Committee considers a variety of factors, including risk considerations, current and anticipated market conditions, the ability to add value through asset management strategies, available financing and disposition strategies.

Value-Added Asset Management

ACA Advisors seeks to acquire investments where value can be enhanced by its active, value-added asset management strategy. The nature of the asset management strategy for any investment or asset generally involves improving its financial performance, changing or optimizing the use of the asset and/or simplifying its capital structure in order to improve marketability. These strategies are implemented directly by the asset management team of Aetos Japan, third-party operators subject to close supervision by Aetos Japan and the asset management team of Aetos China, all subject to the ultimate supervision of ACA Advisors.

Dispositions

ACA Advisors seeks to dispose of investments, or portions thereof, when their values have been maximized. ACA Advisors has relationships with a broad group of agents, servicers, brokers and bankers, as well as principals, including private and institutional investors, financial corporations, real estate companies, J-REITs and Limited Property Trusts through which it seeks disposition opportunities.

Leverage

ACA Advisors seeks to take advantage of the positive yield spread on the purchase of real estate assets created by the current low-interest rate environment by utilizing leverage in its investments in Japan.

While ACA Advisors' investment process is designed to provide attractive returns, investments in Asian real estate may be volatile, and there is a risk that the Funds will lose money. Investors should consider this risk of a possible loss of capital when evaluating ACA Advisors.

Material Risks

Real Estate Investment

Client investments are subject to the risks inherent in the ownership of real estate assets. These risks include, but are not limited to, the burdens of ownership of real property, general and local economic conditions, adverse local market conditions, the financial conditions of tenants, buyers and sellers of properties, changes in building, environmental, zoning and other laws, changes in real property tax rates, changes in interest rates and the availability of debt financing, changes in operating costs, negative developments in the local, national or global economy, risks due to dependence on cash flow, environmental liabilities, uninsured casualties, acts of God, acts of war (declared or undeclared),

hostilities, terrorist acts, strikes and other factors which are beyond the control of ACA Advisors. In addition, with respect to any joint ventures entered into by a Fund, the Fund and ACA Advisors will be unable to exercise sole decision-making authority and will be subject to the risk that a joint venture partner will act improperly or negligently.

Concentration in Asia

The Funds invest substantially all of their assets in Japanese and Chinese real estate and real estate-related investments. As a result of this concentration, the Funds are vulnerable to adverse Japanese and Chinese economic, political and market events, which could negatively impact the value of all Fund investments.

Investment in Troubled Assets

The Funds invest in real estate-related assets and businesses which are experiencing or are expected to experience severe financial difficulties which may never be overcome. There may be little or no near-term cash flow available to the Funds. Since the Funds may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns. In addition, the Funds make investments in non-performing, sub-performing, distressed, undercapitalized or other troubled assets, which may involve a high degree of financial risk.

Illiquidity of Investments

The investments made by the Funds are typically illiquid. Given the nature of these investments, there is a significant risk that the Funds will be unable to realize their investment objectives by sale or other disposition at attractive prices, within any given period of time, or will otherwise be unable to complete any exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the person or entity in which the investment is made, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which investments are made. In addition, illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on the resale of investments by the Funds.

Leverage

The Funds use a substantial amount of leverage in connection with their investments. This leverage increases the exposure of such investments to adverse economic factors such as significantly rising interest rates, severe economic downturns or deteriorations in the condition of the real estate investment or its market. Lenders or other holders of senior positions are typically entitled to a preferred cash flow prior to the Funds receiving a return on leveraged investments, and, in the event an investment is unable to generate sufficient cash flow to meet the principal and interest payments on its indebtedness, the value of the Funds' equity investment in such investment could be significantly reduced or even eliminated.

Hedging Policies/Risks

In connection with the consummation of certain investments, the Funds may employ hedging techniques designed to protect the Funds against adverse movements in currency exchange or interest rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks or react to movements in currency exchange or interest rates differently than originally expected. Thus, while the Funds may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Funds than if they had not entered into such hedging transactions. Furthermore, the Funds will be exposed

to counterparty risk, and if a counterparty fails to perform the hedge may be of no value to the Funds.

Risks of Acquiring Real Estate Loans and Participations

Real estate loans acquired by the Funds may be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. Such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial 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. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that ACA Advisors may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Funds. 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, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years or more to conclude. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Investments in Land/New Development

The Funds may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing. To the extent that the Funds invest in such assets, they will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning, building, land use and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Funds, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Funds. Properties under development or properties acquired to be developed 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 could make such development less attractive than at the time it was commenced.

Accounting Disclosure Standards

Accounting, auditing, financial and other reporting standards, practices, and disclosure requirements in countries in which the Funds invest are not equivalent to those in the United States and may differ in fundamental ways. Accordingly, information available to the Funds, including both general economic and commercial information and information concerning specific enterprises or assets, may be less reliable and less detailed than information available in more economically sophisticated countries. In addition, in certain circumstances, the Funds may not receive access to all available information to determine fully the origination, credit appraisal and underwriting practices utilized with respect to potential investments or the manner in which such investments have been serviced and/or operated. As a result, the Funds’ due diligence activities may provide less information than the due diligence reviews conducted in more developed countries. The lower standards of due diligence in certain countries will increase the risk related to the investments located in these countries.

Currency Rates

Fluctuations in currency rates may adversely affect the performance of the Funds' investments. Since foreign securities or other foreign assets are likely to be purchased with and payable in currencies of foreign countries, the value of these assets measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

Restrictions on Repatriation of Capital and Profits

Some countries in which the Funds may invest control, in varying degrees, the repatriation of capital and profits that result from foreign investment. Capital markets, often opaque, continue to be highly regulated and will likely be subject to continuing government restrictions. There can be no assurance that the Funds will be permitted to repatriate capital or profits, if any, from these countries.

Foreign Economic, Political, Regulatory and Social Risks

Investments by the Funds may be subject to economic, political, regulatory and social risks, which may affect the liquidity of such investments. The governments of certain of the countries in which the Funds may invest have exercised and continue to exercise substantial influence over many aspects of the private sector. The availability of investment opportunities for the Funds depends in part on governments continuing to liberalize their policies regarding foreign investment and to further encourage private sector initiatives. In certain jurisdictions, foreign ownership of real estate or real estate-related assets may be restricted, requiring the Funds to share the applicable investment with local third-party partners or investors, and there may be significant local land use and permit restrictions, local taxes and other transaction costs which adversely affect the returns sought by the Funds.

Ability to Enforce Legal Rights

Because the effectiveness of the judicial systems in the countries in which the Funds may invest varies, the Funds may have difficulty in successfully pursuing claims in the courts of such countries, as compared to those of the United States or other developed countries. Further, to the extent that the Funds may obtain a judgment but are required to seek its enforcement in the courts of another country, there can be no assurance that such a court will enforce such a judgment.

Taxation in Foreign Jurisdictions

The Funds or their underlying investors may be subject to income taxes or other taxes in jurisdictions outside of the United States. In addition, withholding taxes or other taxes may be imposed on earnings of the Funds from investments in such jurisdictions. Local taxes incurred in foreign jurisdictions by the Funds or entities through which they invest may not be creditable to or deductible by the Funds or their underlying investors.

The Funds are subject to additional risks than those set forth above. Please see the offering documents of the relevant Fund for additional risks associated with such Fund. This Brochure generally includes information about ACA Advisors and its advisory agreements with Clients. While much of that information applies to all Clients, some information included herein applies to specific Clients only.

Item 9 Disciplinary Information

Registered investment advisers are required to disclose material legal or disciplinary events that would be material to an evaluation of the adviser or the integrity of the adviser's management. We do not have any such legal or disciplinary events to report.

Item 10 Other Financial Industry Activities and Affiliations

Our only business is providing real estate investment advisory services with respect to Client assets, providing real estate-related asset management services through our affiliates as described in Item 5 and managing the entities established to serve as Fund general partners (or in a similar capacity).

Although certain inherent conflicts of interest may arise from the fact that we provide investment management services to several Clients, and some Clients may have overlapping investment periods, objectives and strategies, such conflicts are limited by virtue of our allocation policies and the agreements governing our relationships with Clients. Such agreements generally provide that Funds with overlapping investment periods invest *pro rata* based on remaining capital commitments or in another manner that is fair and equitable and agreed to by the relevant Clients.

As described in Item 4, Aetos Japan and Aetos China, foreign affiliates of ACA Advisors, provide investment advisory services to Clients indirectly through ACA Advisors. Pursuant to No-Action letters including Uniao de Bancos de Brasileiros S.A, issued July 28, 1992, and Mercury Asset Management plc, issued April 16, 1993 (collectively, the “No-Action Letters”), such affiliates are “Participating Affiliates” within the meaning of the No-Action Letters and therefore neither Aetos Japan nor Aetos China is required to register under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”).

As described in Item 5, affiliates of ACA Advisors also provide asset management and similar services for Clients for fees that are in addition to the management fees and Carried Interest described therein. Such services and fees are subject to certain contractual limitations set forth in Client advisory agreements to mitigate potential conflicts of interest, and are also subject to the oversight and review of the Combined Investor Committee of the Funds (the “Investor Committee”).

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

ACA Advisors has adopted a Code of Ethics (the “Code”) applicable to employees of Aetos Capital who are associated with ACA Advisors or any other persons determined to be “Access Persons” within the meaning of the U.S. Investment Advisers Act of 1940 (“collectively, “Access Persons”). The Code of Ethics includes the following provisions, among others, and is available for review by Clients and prospective Clients upon request:

- each Access Person is responsible for maintaining the very highest ethical standards, including a duty at all times to place the interests of clients first, a duty to ensure that all personal securities transactions are conducted in accordance with the Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest, and a duty not to take advantage of his or her position or engage in any fraudulent or manipulative practice with respect to a client’s account;
- each Access Person must comply at all times with applicable federal securities laws;
- each Access Person must periodically report personal securities holdings and transactions to the Chief Compliance Officer;
- each Access Person must obtain prior approval from the Chief Compliance Officer before he or she (or any related person) engages in any personal securities transaction, unless such transaction is specifically exempted under the Code of Ethics;
- each Access Person must report violations of the Code of Ethics to the Chief Compliance Officer; and,
- each Access Person must receive a copy of the Code (and any amendments) and must provide a written acknowledgment of his or her receipt and review of the Code (and any amendments).

Access Persons are not permitted to invest in transactions that are recommended for the Funds except to the extent such investments are made through a co-investment Fund established to invest *pro rata* (based on remaining capital commitments) with other Funds during a certain period of time, consistent with the offering and governing documents of such Funds. Neither ACA Advisors nor any of its affiliates engages in principal transactions with the Funds.

Item 12 Brokerage Practices

Our Clients invest primarily in real estate and real-estate related interests that generally do not require the use of a securities broker. Accordingly, we do not engage in soft dollar arrangements or make commitments to any broker-dealer that would bind us to utilize that broker-dealer for future securities transactions involving Fund assets. When the use of a broker is required for a specific transaction, our objective in selecting a broker is to achieve best execution, taking into account, among other things, execution quality and capabilities, including with regard to market making, commissions charged by and gross compensation paid to such broker, and special knowledge of the markets in which such securities traded. A broker-dealer may act as agent for one or more Clients in selling securities simultaneously. In such a situation, transactions may, but are not required to, be bundled and Clients will receive proceeds from sales based on average prices received, which may be lower than the price which could have been received had each Client sold its securities separately from such broker-dealer's other Clients. With respect to certain derivatives transactions such as interest rate hedging arrangements, we utilize the services of a third party expert to assist with the selection of credit counterparties, negotiate standardized trading documentation and enhance the efficiency with which we can execute such transactions.

Item 13 Review of Accounts

On an annual basis, a detailed asset plan is prepared for each property owned by a Client. The asset plan for each property includes asset performance, detailed budgets and an assessment of relevant market conditions. For each investment, a business plan is prepared which includes projected cash flows factoring in the detailed property-level asset plans, investment financing and projected sales activity. The preparation and review of the business plans involves members from various functional areas including asset management, disposition, accounting, tax, and finance, including personnel of ACA Advisors, Aetos Japan and Aetos China. The business plans are then reviewed by the senior management of ACA Advisors. On a monthly basis, each investment is reviewed by its asset management team to compare underlying asset performance to the business plan and material variances are reported to the senior management of ACA Advisors.

Each Client provides written quarterly unaudited financial statements and annual audited financial statements to its underlying investors, which include written commentary with respect to each investment.

The Investor Committee meets quarterly with ACA Advisors and at each meeting receives a written report containing detailed information regarding Fund activities and investments.

Item 14 Client Referrals and Other Compensation

We do not compensate any person for client referrals. However, we have in the past entered, and may in the future enter, into written placement agreements consistent with applicable law providing for the payment of fees as consideration for introducing investors to the Funds and arranging for capital commitments from them.

Item 15 Custody

We are deemed to have custody of Client assets because we have the authority to obtain client assets, for example, by deducting investment advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. With respect to each Client, we satisfy our obligations under Rule 206(4)-2 of the U.S. Investment Advisers Act of 1940 by causing an annual audit to be performed in accordance with U.S. generally accepted accounting principles by an independent public accountant that is registered with the Public Company Accounting Oversight Board. Each Client distributes audited financial statements to its investors within 120 days of the end of its fiscal year. In addition, each Client delivers a quarterly account statement to its investors.

Item 16 Investment Discretion

Generally, ACA Advisors has discretion to determine, without consent of the Funds or their investors, the particular investments to be bought and sold by the Funds subject to certain investment limitations regarding concentration and diversification, geography and type of permitted investments as set forth in each Fund's offering materials and governing documents. Investment discretion is granted to ACA Advisors in an investment management agreement between each Fund and ACA Advisors, which confers express authority to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of and disposition of investments.

From time to time, ACA Advisors enters into an agreement with a Client that requires approval of such Client with respect to any acquisition or disposition of that Client's investments (other than cash management or similar transactions) or with respect to such other matters as may be agreed between ACA Advisors and that Client.

Item 17 Voting Client Securities

While ACA Advisors has the authority to vote client securities, and accordingly maintains a proxy voting policy as required by Advisers Act Rule 206(4)-6, we are rarely involved in proxy voting because Client assets are generally invested in privately held real estate and real estate companies rather than in publicly traded securities. On occasion, Clients may invest in publicly traded securities. In the event we receive proxies in connection with those investments, it is our policy to exercise the proxy vote in the best interest of those Clients, taking into consideration all relevant factors, including without limitation, acting in a manner that we believe will maximize economic benefits to such Clients and promote sound corporate governance by the issuer. Whenever we are required to exercise a vote for a privately-held portfolio entity, the same standards and procedures apply. ACA Advisors seeks to avoid material conflicts of interest between its own interests on the one hand, and the interests of Clients and underlying investors on the other. A copy of our proxy voting policy is available to investors upon request as is specific information about how we have previously voted proxies.

Item 18 Financial Information

Registered investment advisers are required in this Item 18 to provide certain disclosures about their financial condition. ACA Advisors is not aware of any financial condition that impairs its ability to meet its contractual commitments to its Clients, nor has ACA Advisors been the subject of a bankruptcy proceeding.