

# **ARES REAL ESTATE MANAGEMENT HOLDINGS LLC**

## **Form ADV Part 2A Firm Brochure**

**Updated: March 31, 2017**

**This brochure provides information about the qualifications and business practices of Ares Real Estate Management Holdings, LLC (“AREMH” or the “Firm”), formerly known as AREA Management Holdings, LLC (“AMH”), which previously operated under the name, AREA Property Partners (“AREA”). If you have any questions about the contents of this brochure, please contact us at 310-201-4100 or [adell@aresmgmt.com](mailto:adell@aresmgmt.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 AREMH also is available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

*Registration with the SEC as an investment adviser does not imply that AREMH or any principals or employees of AREMH possess a particular level of skill or training in the investment advisory or any other business.*

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## Item 2 - Material Changes

AREMH routinely makes changes throughout its brochure in an effort to improve and clarify the descriptions of its and its affiliates' business practices and compliance policies and procedures or in response to evolving industry and firm practices. AREMH does not believe that most of these changes are material and therefore they are not described in this Item 2; however, AREMH has enhanced certain disclosures related to the following area:

- Updates to the risk factors related to our business and investments in our funds as described in “*Material Risks*” under “*Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.*”

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## Item 4 - Advisory Business

AREMH is a Delaware limited liability company that was formed in December 2010. AREMH is indirectly wholly owned by Ares Management LLC (“Ares Management”), an SEC-registered investment adviser and subsidiary of Ares Management, L.P. (“Ares LP”), a publicly traded leading global alternative asset manager. The indirect principal owner of Ares LP is Antony P. Ressler who, together with certain other members of the senior management team of Ares LP, indirectly holds a majority ownership in Ares LP through intermediate holding companies.

AREMH provides the services described below to its advisory clients, which are comprised of various pooled investment vehicles, including private investment funds (the “Funds”), separate investment accounts for single investors, and co-investment funds (collectively, with the “Funds,” “Clients”). In some situations, AREMH may form special purpose entities to serve as investment vehicles for investors. AREMH, or an affiliated entity controlled by AREMH, serves as general partner, managing member, investment adviser, sub-adviser, manager, sub-manager, of each of its clients, including separate or managed accounts. References to AREMH in this brochure include, as the context requires, affiliates through which AREMH provides investment advisory services or that act in any capacity referenced in the previous sentence

AREMH generally seeks to provide capital appreciation through the acquisition and subsequent oversight of the development, repositioning, management, and operations of real estate and real estate-related assets predominantly in North America and Europe. AREMH also may offer advice in relation to securities and other financial instruments and transactions consistent with the respective Funds’ investment strategies, objectives, and their Investment Management Agreements (“Management Agreements”). In no particular order regarding volume or frequency, these sorts of securities or other financial instruments may include, but are not limited to, (i) commercial mortgage-backed securities (“CMBS”), (ii) whole loans, (iii) commercial real estate corporate debt and loans, (iv) mezzanine loans, (v) commercial real estate mortgage loans, (vi) recapitalization and restructuring of real estate property, (vii) acquisitions of real property, and (viii) non-performing loans. In limited circumstances and in connection with certain investments, AREMH may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices, and currency exchange rates and may employ leverage in connection with investment activities on behalf of the Funds.

The investment activities of certain of the Funds are subject to diversification and geographic limitations. In addition, there may be limitations on the amount of leverage that AREMH may utilize in connection with the investment activities of certain Funds. Investors and prospective investors in Funds managed by AREMH should refer to the public filings, confidential private placement memorandum, limited partnership agreement, investment management agreement and other governing documents (the “Governing Documents”) for such Funds for complete information on the investment objectives and investment restrictions of such Funds.

In accordance with common industry practice, AREMH or a Fund’s general partner, may enter into “side letters” or similar agreements with certain investors pursuant to which the general

partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally.

AREMH does not participate in any wrap fee programs.

AREMH manages all client account assets on a discretionary or non-discretionary basis in accordance with the terms and conditions of each client account's Governing Documents. As of December 31, 2016, AREMH had regulatory assets under management ("RAUM") of approximately \$5,013,104,000, of which \$831,315,000 is managed on a non-discretionary basis.

## Item 5 - Fees and Compensation

### *Compensation and Fee Schedules*

In conjunction with this brochure, investors should review the Governing Documents of the applicable Fund in which they are invested or in which they are considering to invest, for more complete information on the fees and compensation payable with respect thereto. With respect to Funds managed by AREMH in which all investors are "qualified purchasers" ("Qualified Purchasers") as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), information regarding the fees and compensation payable by such investors is not required to be provided herein. With respect to AREA Real Estate Finance Corporation (together with its consolidated subsidiaries, "AREFIN"), the annual base management fee is equal to the product of (a) 0.5% and (b) the amount of the investors' remaining capital allocated to one of AREFIN's remaining assets. The AREFIN base management fee is calculated and payable quarterly, in arrears.

In certain circumstances, the advisory fees payable to AREMH by investors in certain Funds managed by AREMH may be negotiable. Investors and prospective investors in each Funds managed by AREMH should refer to the Governing Documents of such Funds for more complete information on the advisory fees charged by AREMH.

AREMH's annual investment management fee ("Management Fee") is typically based on the overall dollar value of all capital commitments and unreturned capital contributions. Management Fees are typically charged on a quarterly basis and in arrears. Management Fees generally will be imposed as of the initial closing date for each individual Fund client. Specific Management Fee arrangements will be set forth in each individual Client's Governing Documents.

AREMH's may also earn a Performance Fee (sometimes called a "carried interest," a "promote," or an "incentive" fee) that is generally calculated as a percentage of the net profits achieved by the Client. AREM Holdings' Performance Fees are generally calculated and assessed after the deduction of all expenses, management fees (if any), and any specially allocated items of profit and loss (if any). Performance Fees are generally assessed only after investments have been realized and returns exceed a performance benchmark. To the extent AREMH assesses a Performance Fee on an annual basis (and not on a realization basis), then the arrangement will typically involve a high water mark or loss carryforward provision, prohibiting AREMH from receiving a Performance Fee until previous losses have been recuperated. The specifics of

AREMHs' performance fee arrangements will be set forth in greater detail in the applicable Governing Documents.

Investors and prospective investors in Funds managed by AREMH should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

### ***Deduction of Fees; Timing of Payments; Termination***

For each client account managed by AREMH, AREMH is authorized under the Governing Documents to charge and deduct advisory fees directly from the assets of such client account at the times and in the amounts set forth in the Governing Documents of such client account.

Advisory fees for certain of AREMH's client accounts are payable in arrears, generally on a quarterly basis. Since such advisory fees are payable in arrears, they are not paid until after services have been rendered. With respect to certain other AREMH client accounts, advisory fees are payable quarterly in advance. Please refer to the Governing Documents of the applicable client accounts for more complete information on the timing of advisory fee payments.

Funds managed by AREMH have the right to terminate AREMH's advisory services in accordance with the terms of the applicable Management Agreement. AREMH's general policy is to repay any advisory fees paid by a Fund managed by AREMH in advance in excess of the pro rata portion earned by AREMH (based on the number of days during the period) through the termination date. Any such refund would be implemented through a wire transfer of funds to the affected clients upon termination of their Management Agreement with AREMH.

### ***Other Fees and Expenses***

In addition to the fees payable to AREMH, Funds and client accounts may incur certain charges including (but not limited to):

- any sales or other taxes, fees or government charges that may be assessed against the client;
- commissions, brokerage fees and similar charges incurred in connection with the purchase or sale of securities;
- the costs and expenses (including travel-related expenses) of holding meetings or conferences with an AREMH Fund's investors;
- expenses relating to litigation and threatened litigation involving a client account;
- indemnification obligations and expenses;
- investigation of investment opportunities (whether or not any such investment is consummated);
- expenses attributable to administrative, accounting, auditing, appraisal, tax advisory, tax preparation, preparation of Schedule K-1s, tax reporting, legal, external consulting, back office services, custodial and registration services provided to a client account;
- premiums for liability insurance;
- the costs of dissolving a Fund managed by AREMH and liquidating its assets; and
- the costs and expenses for tax and audit services to a client account.

All travel related expenses incurred by AREMH employees are subject to Ares Management's Travel and Expense Reimbursement Policies and Procedures.

To the extent that such fees, costs, and expenses are incurred for the account or benefit of more than one Fund, each such Fund will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of its investment in the activity or entity to which such expense relates (subject to the terms in each Fund's Governing Documents) or in such other manner as AREMH considers fair and equitable under the circumstances. AREMH endeavors to allocate such fees, costs and expenses on a fair and equitable basis. Please refer to the Governing Documents of the applicable client accounts for complete information on the expenses payable by such client accounts.

### ***Transaction-Based Compensation***

AREMH or its affiliates or supervised persons may receive asset management, portfolio investment transaction, monitoring, servicing, other similar advisory fees and other fees and profits interests, and break-up fees from portfolio investments in which one or more of AREMH's client accounts may invest or propose to invest. These types of arrangements present potential conflicts of interest and may provide AREMH's supervised persons with an incentive to recommend investments based on compensation received rather than the best interests of an AREMH client account. To mitigate potential conflicts, such benefits received by AREMH in connection with its services related to portfolio investments or transactions are generally either waived or offset against advisory fees payable by the related client account. Please refer to the Governing Documents of the applicable client account for more complete information on additional compensation that may be receivable by AREMH or its affiliates or supervised persons in connection with investments and any offsets against advisory fees.

AREMH may cause or permit a Fund to contract for the performance of certain services by AREMH or any of its affiliates that may result in the receipt of transaction-based compensation by AREMH or any of its affiliates. In such circumstances, AREMH may have an incentive to recommend transactions or investment instruments based on compensation received by related persons, rather than on the needs of such Funds. To mitigate such conflicts, the Governing Documents of a Fund with respect to which such transaction-based compensation is permitted will typically require that the terms and conditions under which the related services are provided (including fees) must be at least as favorable to such Fund as the terms available in an arm's-length transaction with an independent third party and that any such services require notice to the applicable Funds advisory board or equivalent thereof.

## **Item 6 - Performance-Based Fees and Side-by-Side Management**

### ***Performance-Based Fees***

AREMH or a related person may be entitled to receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of the applicable client accounts. See discussion above in the section entitled "*Compensation and Fee Schedules.*" Such performance-based allocation arrangements discussed above comply with Rule 205-3 under the

Investment Advisers Act of 1940, as amended (the “Advisers Act”) and are separate and distinct from the advisory fees charged by AREMH or its related persons for advisory services. AREMH employees, certain business associates and “friends and family” of AREMH or its personnel will typically not pay any performance-based compensation with respect to their direct or indirect investments in client accounts.

Performance-based allocation arrangements received by AREMH or its related persons may create incentives for AREMH to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Please refer to the Governing Documents of the applicable client account for more complete information on the “performance-based fee” arrangements to which such client account is subject.

### *Side-by-Side Management*

AREMH may provide concurrent advisory services to clients that are not charged a performance-based fee or allocation by AREMH or its related persons (or are charged reduced fees or allocations) and clients that are charged a performance-based fee or allocation. The potential for AREMH and its related persons to receive greater fees or allocations from performance-based accounts creates potential conflicts of interest with respect to the allocation of investment opportunities, as AREMH may have incentives to direct the best investment ideas to, or to allocate investments in favor of, funds or investment accounts that pay performance fees or special allocations of profits. To mitigate potential conflicts of interest, AREMH’s investment allocation policy provides that all investment opportunities will be allocated among its client accounts on a basis that over a period of time is fair and equitable to each client account relative to other clients consistent with any fiduciary duties owed to clients and in an effort to avoid favoring one client over another, taking into account the terms of the relevant Governing Documents and relevant facts and circumstances, including, but not limited to:

- (i) differences with respect to available capital, size of a Fund, and remaining life of a Fund;
- (ii) differences in investment objectives or current investment strategies, such as objectives or strategies:
  - a) regarding current and total return requirements,
  - b) emphasizing or limiting exposure to the security or type of security in question,
  - c) regarding diversification, including industry or company exposure, currency and jurisdiction, or
  - d) regarding rating agency ratings;
- (iii) differences in risk profile at the time an opportunity becomes available;
- (iv) the potential transaction and other costs of allocating an opportunity among various Funds;
- (v) potential conflicts of interest, including whether multiple Funds have an existing investment in the security in question or the issuer of such security;



- (vi) the nature of the security or the transaction including minimum investment amounts and the source of the opportunity;
- (vii) current and anticipated market and general economic conditions;
- (viii) existing positions in an issuer/security; and
- (ix) prior positions in an issuer/security.

Funds should be aware that the foregoing procedures in certain circumstances may:

- adversely affect the price paid or received by the Fund or the size of a position purchased or sold by the Fund, including commission prices;
- preclude the Fund from participating in an investment; or
- limit the rights that the Fund may exercise with respect to an investment.

The members of the AREMH investment committee(s) and each respective Fund's portfolio manager(s) are generally responsible for administering transactions among the client accounts managed by AREMH. Allocations of investment opportunities are reviewed periodically by AREMH to assess the effectiveness of the procedures. AREMH and its principals or other related parties may co-invest with certain client accounts, as described in the Governing Documents thereof.

Nevertheless, it is possible that Funds may not be given the opportunity to participate in certain investments made by other Funds. In addition, while the above are general principles, all actual allocation decisions are subject to relevant facts and circumstances and the investment objectives of various Funds.

*Co-Investment Policy.* AREMH has adopted a co-investment policy which was designed to ensure fair allocation of co-investment opportunities in the event such opportunities become available. A Fund may co-invest in the same investment opportunity together with other Funds or with other co-investors. Subject to the terms of the Governing Documents of a Fund, AREMH may also offer co-investment opportunities to other Funds or to other co-investors (including investors in Funds, third-parties, senior investment professionals and other affiliates or employees of AREMH and its affiliates) (such persons invited to participate in a transaction by AREMH collectively referred to as "Co-Investors"). AREMH is under no obligation to provide co-investment opportunities and may offer a co-investment opportunity to one or more of the categories of Co-Investors described above without offering such opportunity to the other categories. Strategic, financial and other institutional investors participating in a transaction generally will not be considered "Co-Investors" and generally will not be subject to the Co-investment policy or expense sharing considerations described herein.

Co-investments will generally be made, at the investment level, on economic terms substantially no more favorable to Co-Investors than those on which the Fund invests and any such co-investment generally will be sold or otherwise disposed of at substantially the same time (and, in the case of a partial disposition, in substantially the same proportion) as the Fund's disposition of its interest in such investment and on economic terms at the investment level substantially no more favorable to such Co-Investors than to the Fund. Notwithstanding the foregoing, in certain instances different Funds may participate in different parts of the capital structure of a portfolio



investment, and may purchase securities at different times, and such instances are not considered “co-investments” by AREMH and are not subject to the policies described herein.

In such circumstances, the size of the investment opportunity otherwise available to a Fund may be less than it would otherwise have been. Certain Co-Investors co-investing with a Fund may invest on different (and more favorable) terms than those applicable to the Fund and may have interests or requirements that conflict with and adversely impact the Fund (for example, with respect to their liquidity requirements, available capital, the timing of acquisitions and disposals, or control rights). AREMH will generally seek to ensure that the Fund, AREMH, and any Co-Investors participate in any co-investment and any related transactions on comparable terms to the extent practicable and share in corresponding investment related expenses.

*Terms of Co-Investments.* AREMH or any of its affiliates may (or may not) in their discretion: (i) receive performance-based compensation, Advisory Fees or other similar fees from Co-Investors, and AREMH or its affiliates may make an investment, or otherwise participate, in any vehicle formed to structure a co-investment to facilitate, among other things, receipt of such performance-based compensation, Advisory Fees or other similar fees; and (ii) collect customary fees in connection with actual or contemplated portfolio investments that are the subject of such co-investment arrangements.

With respect to consummated co-investments, AREMH will seek to cause Co-Investors to generally bear their *pro rata* share of fees, costs and expenses related to the discovery, investigation, development, acquisition or consummation, ownership, maintenance, monitoring, hedging and disposition of their co-investments; provided, however, that in determining such amounts, the fees, costs and expenses expended directly by such Co-Investors may be taken into account in allocating aggregate costs on a fair and reasonable basis. With respect to a proposed co-investment that is not consummated, AREMH may seek to cause Co-Investors that commit to participate in such proposed co-investment to bear their share of any fees, costs or expenses that were incurred in connection with such proposed co-investment, including breakup fees or broken deal expenses. However, in instances where Co-Investors have not yet committed to a proposed co-investment, any such fees, costs or expenses will generally be considered Operating Expenses and be borne by the Fund to the extent the applicable Governing Documents of such Fund permit such treatment or where disclosure of such treatment was made to the investors in such Fund prior to their investment therein.

In the event that Co-Investors participate in a co-investment through one or more Co-Investment Vehicles, they will generally also bear their *pro rata* share of the aggregate Organizational Expenses of all such vehicles. In those circumstances where such Co-Investors include one or more members of a portfolio company’s management group, such Co-Investors may receive compensation arrangements relating to the investment, including incentive compensation arrangements. Finally, some of the Co-Investors with whom Funds may co-invest have pre-existing investments with AREMH, and the terms of such pre-existing investments may differ from the terms upon which such persons may invest with Funds.

*Over-Commitment.* In order to facilitate the acquisition of a portfolio company, AREMH may cause one or more Funds to make (or commit to make), an investment in such company that exceeds the desired amount with a view to selling a portion of such investment to Co-Investors or other persons prior to or within a period after the closing of the acquisition. In such event, the applicable Fund(s) will bear the risk that any or all of the excess portion of such investment may

not be sold or may only be sold on unattractive terms. As a consequence, the applicable Funds may bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment and hold a larger than expected investment in such portfolio company or may realize lower than expected returns from such portion of such investment. AREMH endeavors to address such risks by requiring such investments to be in the best interests of the Funds, regardless of whether any sell-down ultimately occurs. Neither AREMH nor any of their affiliates will be deemed to have violated any duty or other obligation to Funds or any of their respective investors by engaging in such investment and sell- down activities.

Please see “*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*” for a discussion of how AREMH addresses these matters

## Item 7 - Types of Clients

### *Types of Clients*

AREMH provides investment advisory services to various Clients, which are generally structured as pooled investment vehicles or “Funds” as described here. Investors in Funds managed from time to time by AREMH may include corporations (including insurance companies), endowments, foundations, trusts, estates, high-net worth individuals and pension and profit sharing plans. Each pooled investment vehicle managed by AREMH is offered exclusively to accredited investors. In addition, each such pooled investment vehicle generally is excluded from the definition of “investment company” or relies on an exception from the definition of “investment company” in Section 3(c) of the Investment Company Act and is therefore not required to register as an investment company under the Investment Company Act.

### *Minimum Investment Requirements*

AREMH does not impose a standard set of minimum fees or other conditional requirements for any Client relationships.

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

### *Methods of Analysis and Investment Strategies*

AREMH’s overarching investment strategy is implemented through a highly disciplined underwriting, investment and portfolio management process. The specific methods of analysis and investment strategies utilized by AREMH for client accounts managed by AREMH are described below. For additional details relating to the methods of analysis and investment strategies employed by a client account, please refer to the Governing Documents of such client account.

AREMH employs a rigorous, credit-oriented evaluation towards determining the risk/return profile of the investment opportunity and the appropriate pricing and structure for the prospective investment, with specific reference to the strength of the transaction sponsor(s), the underlying real estate and the structure of the investment. Detailed financial modeling and analysis is conducted to assess the cash flow and debt service coverage characteristics of the properties as well as interest rate and prepayment analysis.

Focus is given to current cash flows and potential risks to cash flow such as those associated with tenant credit quality, lease maturities, reversion to market level rental rates, vacancy and expenses. Cash flow analysis and market comparables are used as follows:

- to determine the current value of the underlying collateral
- to assess the capacity to repay or refinance upon maturity
- to understand sensitivities to various potential changes in asset performance, market fundamentals and real estate capital markets

AREMH performs extensive property, sponsor and market-level due diligence, including:

- a competitive analysis
- corporate profile and credit reviews for major tenants
- due diligence on the borrower and its sponsor(s), including meeting with the borrower's and sponsor's respective management teams
- checking management's backgrounds and references
- analyzing the governance structure of the borrower
- investigation into legal risks
- market and industry research, including an analysis of demographics, key economic fundamentals such as employment and population growth, and comparable transactions
- review of the borrower's business plan with respect to the property

AREMH's underwriting focuses on understanding the broader capital structure of the transaction and ensuring that it has the appropriate controls and rights with respect to its prospective investment.

If considering investments in CMBS, AREMH would undertake an extensive analysis of the underlying loans and careful review of the security terms and conditions.

### ***Material Risks***

The task of identifying investment opportunities and managing such investments can be difficult. There can be no assurance that any client account managed by AREMH will be able to make and realize any particular investment or level of return. Investing involves a risk of loss that investors in one or more Funds managed by AREMH should be prepared to bear. Investors should carefully consider, among other factors, the following material risks involved with AREMH's investment strategies. Investors are requested to refer to the Governing Documents of the applicable Fund managed by AREMH for more complete information on investment strategies employed by such Fund and the corresponding risks associated with such investment strategies.

***The historical returns attributable to our Funds should not be considered as indicative of the future results of our Funds.***

**General Market Risks.** Investments made by our client accounts are materially affected by conditions in the global financial markets and economic and political conditions throughout the world, such as interest rates, the availability and cost of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to our taxation, taxation of our investors, the possibility of changes to tax laws in either the United States or any non-U.S. jurisdiction and regulations on alternative asset managers), political uncertainty and social unrest, trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts and security operations). These factors are outside of our control and may affect the level and volatility of securities prices and the liquidity and value of investments, and we may not be able to or may choose not to manage our exposure to these conditions, which may result in adverse consequences for our client accounts and result in substantial losses to our client accounts.

**General Real Estate Considerations.** Real estate historically has experienced significant fluctuations and cycles in value that may result in reductions in the value of real estate-related investments. The marketability and value of the investments undertaken by AREMH on behalf of its client accounts depends on many factors beyond the control of AREMH. The ultimate performance of such investments is subject to the varying degrees of risk generally incident to the financing, ownership, and operation of the underlying real property. The ultimate value of a client account's investment in the underlying real property depends upon the real property owner's ability to operate the real property in a manner sufficient to maintain or increase revenues in excess of operating expenses and debt service or, in the case of all properties, the ability of any lessees to make rental payments.

Real estate investments are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks;
- adverse changes in national and local economic and market conditions including local markets with a significant exposure to the energy sector, which may be affected by the current low prices of oil and related gas that could adversely affect the success of that industry;
- changes in governmental laws and regulations (including their interpretations), fiscal policies (and in the availability, cost and terms of mortgage funds) and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- the potential for uninsured or under-insured property losses;
- the financial condition of tenants, buyers and sellers of properties; and

- competition from other properties offering the same or similar services.

The risks associated with AREMH's clients' investments will be more severe during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. In addition, AREMH's investment model may be adversely affected if the current economic recession continues longer or is deeper than anticipated. Declining real estate values would likely reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on loans if the value of real estate declines. Further, declining real estate values significantly increase the likelihood that AREMH's client accounts will incur losses on loans in the event of default because the value of the collateral may be insufficient to cover the remaining obligation due on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect AREMH's ability to invest in, sell and securitize loans.

The factors above could materially and adversely affect the results of the operations, financial condition, liquidity and business of AREMH's client accounts and their ability to pay returns.

**Competition for Real Estate Investments.** AREMH operates in a competitive market for investment opportunities and competition may limit its ability to originate or acquire desirable investments in its target investments and could also affect the pricing of such investments, thereby reducing returns to AREMH's client accounts, and may decrease the available supply of investment opportunities deemed suitable for such client accounts. A number of entities compete with client accounts managed by AREMH to make the types of investments that such client accounts seek to make. The profitability of AREMH's client accounts depends, in large part, on AREMH's ability to originate or acquire target investments on attractive terms. In originating or acquiring target investments, AREMH's client accounts will compete with a variety of institutional investors, including other real estate investment trusts, specialty finance companies, public and private funds (including other funds managed by AREMH or an affiliate of AREMH), commercial and investment banks, commercial finance and insurance companies and other financial institutions.

Some of AREMH's competitors are significantly larger than it and have considerably greater financial, technical, marketing and other resources. Some competitors may have a lower cost of funds and access to funding sources that are not available to AREMH, such as the U.S. Government. In addition, some of AREMH's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, deploy more aggressive pricing and establish more relationships than AREMH. Furthermore, competition for originations of and investments in AREMH's client accounts' target investments may lead to the price of such assets increasing, which may further limit such accounts' ability to generate desired returns. AREMH cannot assure investors that the competitive pressures its client accounts face will not have a material adverse effect on their business, financial condition and results of operations. Also, as a result of this competition, desirable investments in target investments may be limited in the future and such client accounts may not be able to take advantage of attractive investment opportunities from time to time, as no assurance can be

provided that investments that are consistent with AREMH's client accounts' investment objectives will be identified and made.

**Risk of Default or Insolvency by Underlying Investments.** With respect to mezzanine or other subordinate investments that may be made by various client accounts, the leveraged capital structure of the properties underlying the mezzanine products and other investments in which client accounts invest will increase their exposure to adverse economic factors (such as rising interest rates, competitive pressures, downturns in the economy or deterioration in the condition of the real estate company or property) and to the risk of unforeseen events. This leverage may result in more serious adverse consequences to such underlying properties (including to overall profitability or solvency) in the event these factors or events occur than the consequences for less leveraged entities or properties. For example, rising interest rates may significantly increase interest expense, or a significant market downturn may affect the ability to generate positive cash flow, in either case causing an inability to service outstanding debt, which may include the debt investments held by client accounts. If an underlying property cannot generate adequate cash flow to meet debt obligations, for example, because a major tenant defaults under, terminates or fails to renew its lease, the borrower may default on its loan agreements or be forced into bankruptcy. As a result, client accounts may suffer a partial or total loss of invested capital.

**Risks Associated with Mezzanine Loans.** Certain client accounts may originate or acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, a client account may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy the client account's mezzanine loan. If a borrower defaults on the client account's mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, the client account may not recover some or all of its initial investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

**Risks Associated with Preferred Equity Investments.** Certain client accounts may invest in real estate preferred equity, which involves a higher degree of risk than first mortgage loans due to a variety of factors, including the risk that, similar to mezzanine loans, such investments are subordinate to first mortgage loans and are not collateralized by property underlying the investment. Unlike mezzanine loans, preferred equity investments generally do not have a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Although as a holder of preferred equity we may enhance our client accounts' position with covenants that limit the activities of the entity in which they hold an interest and protect client accounts' equity by obtaining an exclusive right to control the underlying property after an event of default, should such a default occur on our investment, we would only be able to proceed against the entity in which client accounts hold an interest, and not the property owned by such



entity and underlying the client accounts' investment. As a result, we may not recover some or all of our client accounts' investment.

**Risks Associated with B-Note Originations or Acquisitions.** Certain client accounts may originate or acquire B-Notes. A B-Note is a mortgage loan typically (a) secured by a first mortgage on a single large commercial property or group of related properties and (b) subordinated to an A-Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note holders after payment to the A-Note holders. Because each transaction is privately negotiated, B-Notes can vary in their structural characteristics and risks. For example, the rights of holders of B-Notes to control the process following a borrower default may vary from transaction to transaction. Further, B-Notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration. Significant losses related to the B-Notes held by a client account would result in operating losses for such client account and may limit the account's ability to make distributions to its stockholders or investors.

**Risks Associated with Investments in Illiquid Instruments.** The illiquidity of investments made by certain client accounts may make it difficult for us to sell such investments if the need or desire arises. The illiquid nature of a Fund's investments may limit a Fund's ability to respond to changes in economic and other conditions. While an investment may be disposed of at any time, it is generally expected that a Fund's investments will be held for a number of years after being made. Although investments may generate some current income, the return of capital and the realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition, financing or refinancing of an investment. It is possible that a Fund may not encounter favorable disposition, financing or refinancing terms for its investments, thereby reducing its returns. Certain target investments such as B-Notes, transitional and mezzanine loans, preferred equity and other investments are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty or recovery in the event of a borrower's default. In addition, many of the loans and securities (if any) will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. As a result, many investments made by certain client accounts will be illiquid, and if we are required to liquidate all or a portion of our portfolio quickly, such accounts may realize significantly less than the value at which they have previously recorded investments. Further, such accounts may face other restrictions on their ability to liquidate an investment in a business entity to the extent that we have or could be attributed as having material, non-public information regarding such business entity. As a result, our ability to vary portfolios in response to changes in economic and other conditions may be relatively limited, which could adversely affect the results of operations and financial condition.

**Valuation Risk.** Certain client accounts hold portfolio investments in the form of investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Unlike publicly traded securities, real estate assets generally cannot be marked to an established trading value. An appraisal or valuation is only an estimate of value and is not a precise measure of realizable value. Real estate valuations

are subject to numerous assumptions and limitations. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. However, ultimate realization of the market value of a real estate asset depends to a great extent on economic and other conditions beyond the control of the Fund. Further, appraised or otherwise determined values do not necessarily represent the actual sale price of a real estate investment since market prices of real estate investments can only be determined by negotiation between a participating buyer and seller. As a result, if a Fund was to liquidate a particular real estate investment, the realized value may be less than the appraised value or valuation of such asset. Because such valuations are subjective, the fair value of certain assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Additionally, returns for a given period could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that the client account ultimately realizes upon their disposal. The valuation process is particularly challenging as market events and lack of investment activity make valuations of certain assets more difficult, unpredictable and volatile.

**Lack of Operating Control of Underlying Investments.** The day-to-day operations of the properties underlying the investments in which certain client accounts invest are the responsibility of the owners and developers of such properties. Although AREMH is responsible for monitoring the performance of each investment and invests in debt or other investments with underlying real estate properties that are operated by what are believed to be strong management, there can be no assurance that the owners and developers will be able to operate the underlying companies or properties in accordance with their business plans or the expectations of client accounts.

**Investment in Distressed Assets.** Certain client accounts may make investments that either are or become non-performing or otherwise troubled. These investments may experience financial difficulties that may never be overcome. Such client accounts' investments are likely to be subject to the prior interests of a mortgage lender, which could foreclose on its mortgage (and wipe out the client accounts' investment) if a mortgage default occurred. Investments in properties operating under the close supervision of a mortgage lender or under certain bankruptcy laws are, in certain circumstances, subject to certain additional potential liabilities, which may exceed the value of the client accounts' original investment. In addition, lenders who have inappropriately exercised control over the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Under certain circumstances, payments to AREMH Funds and distributions by such Funds to their respective investors may be required to be returned if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Risks Associated with Senior CRE Loans and CMBS Mortgage Loans.** Senior commercial real estate loans made or acquired by certain client accounts will be secured by commercial property and will be subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or

assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by a client account, such client account will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal and accrued interest and costs of collection of the mortgage loan, which could have a material adverse effect on the client account's cash flow from operations and limit amounts available for distribution to the client account's investors. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on a client account's anticipated return on the foreclosed mortgage loan.

**Risks Associated with Loans on Properties in Transition.** Certain AREMH client accounts may originate or acquire transitional loans secured by first lien mortgages on a property to

borrowers who are typically seeking short-term capital to be used in an acquisition or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an asset that has not been stabilized or has been under-managed and is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and the applicable client account will bear the risk that it may not recover some or all of its investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower's inability to obtain permanent financing to repay the transitional loan. Transitional loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under transitional loans that may be held by an AREMH client account, such client account will bear the risk of loss to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest and costs of collection of the transitional loan.

Further, the renovation, refurbishment or expansion by a borrower with respect to a property in transition mortgaged by a short term senior loan involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than budgeted, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on a client account's loan investment, which could result in significant losses.

**Risks Associated with Credit Rating Downgrades.** Investments made by certain client accounts may be rated by rating agencies such as Moody's Investors Service, Fitch Ratings, Standard & Poors, DBRS, Inc. or Realpoint LLC. Any credit ratings on such investments are subject to ongoing evaluation by credit rating agencies, and there can be no assurance that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of investments in the future, the value of the applicable client accounts could significantly decline, which would adversely affect the value of their investment portfolios and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to such client account.

**Risks Associated with Commercial Mortgage Backed Securities Investments.** Certain client accounts may acquire CMBS. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any

equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which a client account invests, such account will not be able to recover all of its investment in the securities it purchases. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments due on the related mortgage-backed securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

With respect to the CMBS in which a client account may invest, overall control over the special servicing of the related underlying mortgage loans will be held by a “directing certificateholder” or a “controlling class representative,” which is appointed by the holders of the most subordinated class of CMBS in such series. Because a client account may acquire classes of existing series of CMBS, such account will not have the right to appoint the directing certificateholder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificateholder, take actions with respect to the specially serviced mortgage loans that could adversely affect a client account’s interests.

**Interest Rate, Hedging Risk and Restrictions on Hedging.** The market value of the client accounts’ investments may be affected by changes in interest rates. In general, the market value of a debt investment changes in inverse relation to an interest rate change where a debt investment has a fixed interest rate or only limited interest rate adjustments. Accordingly, in a period of declining interest rates, debt investments without adequate call protection may benefit less than other fixed income securities due to accelerated prepayments. For example, a property securing a commercial real estate collateralized debt obligation may bear interest at a fixed rate while the commercial real estate collateralized debt obligation may bear interest at a floating rate, which can lead to a floating/fixed rate or basis mismatch. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability of such property to generate positive cash flow and make payments on the commercial real estate collateralized debt obligation. Interest rate changes may also affect a client account’s return on new investments. Increases in the interest rates on debt incurred by a client account in originating or acquiring investments may not be reflected in increased rates of return on the related investments, adversely affecting the client account’s return on those investments. Accordingly, interest rate changes may adversely affect the total return on a client account’s portfolio.

A Fund may incur indebtedness that may bear interest at variable interest rates. Variable interest rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect the Fund (for example, borrowing costs may increase but there may not be a corollary increase in tenant rent payments to the Fund). A Fund’s performance may be adversely affected by a fluctuation in interest rates if it utilizes variable rate mortgage financing and is unable to employ an effective hedging strategy to mitigate such risks, including engaging in interest rate swaps, caps, floors and other interest rate contracts, and buying and selling interest rate futures and options on such futures. Should a Fund elect to borrow at a variable interest rate and to employ such a hedging strategy, the use of these instruments to hedge a portfolio carries certain risks, including the risks that losses on a hedge position will reduce the Fund’s earnings and funds available for distribution to the Fund’s investors and that such losses may exceed the



amount invested in such instruments. Even if used, hedges may not perform their intended purpose of minimizing and offsetting losses on an investment. There can be no assurance that techniques used in hedging strategies will always be available, that a Fund will engage in these techniques when available, or that the hedging strategies will be successful in limiting any applicable risks. In addition, to the extent that a Fund conducts such activities through a REIT subsidiary, it will be subject to the limitations on such activities applicable to REITs. A Fund's ability to hedge certain risks may be constrained by certain CFTC rule requirements (which may impose certain limitations on an investment vehicle's ability to utilize commodities, including interest rate swaps) or other available exemption criteria in connection with a registration exemption that may be available to a Fund's general partner's and its investment manager. Accordingly, a Fund may not be able to borrow at a variable interest rate or to employ certain hedging strategies.

**Investments Longer than Term.** Certain client accounts, may hold investments with maturity dates or a life span later than the date on which the applicable client account is expected to be liquidated or dissolved. Although investments are generally disposed of prior to a Fund's dissolution, such accounts may be required to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

**Leverage.** Certain client accounts' return on investment is dependent upon their ability to use leverage. Such client accounts' ability to obtain the leverage necessary on attractive terms depends upon many factors including market conditions and the client accounts' performance. The failure to obtain leverage at the contemplated advance rates, pricing and other terms could have a material adverse effect on such client accounts. Leverage creates an opportunity for increased returns, but at the same time creates risks. There can be no assurance that such client accounts' use of leverage will prove to be beneficial. Moreover, there can be no assurance that such client accounts will be able to meet their debt service obligations and, to the extent that they cannot, such client accounts risk the loss of some or all of their assets or a financial loss if the client accounts are required to liquidate assets at a commercially inopportune time. In addition, the debt may be recourse for such client accounts so an impairment or potential impairment of an investment may create a risk of loss of some or all of their assets.

**Concentration of Portfolio Investments.** Certain AREMH client accounts may concentrate their investment focus on certain property types that are subject to higher risk of foreclosure or loss, or on properties (or investments secured by properties) concentrated in a limited number of geographic locations. To the extent that any client account's portfolio is concentrated in any one region or type of asset, downturns relating generally to such region (which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors) or type of asset (such as oversupply of or reduced demand for industrial properties) may result in defaults on a number of investments within a short time period. There can be no assurance that the economy of the targeted areas will continue to grow or that any future growth will meet historical growth rates. These factors may reduce the client accounts' net income and adversely affect the funds available for distribution to investors by such AREMH client accounts.

**Third Party Involvement.** In certain situations, certain client accounts may (i) acquire only a minority interest in a company or other asset in which they invest, (ii) rely on independent third



party management or strategic partners with respect to the operations of a company or other asset in which they invest or (iii) acquire only a participation in an asset underlying an investment, and therefore may not be able to exercise control over the management of such company or investment. Certain AREMH client accounts may also co-invest with third parties through loan participations or partnerships, joint ventures or other entities, thereby acquiring non-controlling interests in certain investments. Such accounts may not have control over these investments and therefore, may have a limited ability to protect their positions therein. Property management decisions, including responding to changing market conditions, implementing rental or pricing structures and causing maintenance and capital improvements, can affect the net operating income of an income producing property and, in turn, the ability of such real estate property to generate adequate cash flow to meet debt obligations. Though the property management experience of property managers selected by AREMH may vary, AREMH does not retain a manager unless it believes that the manager is competent to manage the property. However, there is no assurance that the third party manager retained by a client account will competently manage the property. Accordingly, such investments may involve risks not present in investments where a third party is not involved, including the possibility that the participating lender or a third party partner or co-venturer may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with or adverse to those of the applicable client account, or may be in a position to take action contrary to the client account's investment objectives. In addition, a client account could in certain circumstances be liable for the actions of its third party partners, loan participants or co-venturers.

**Controlling Person Liability.** AREMH client accounts may have controlling interests in some of their investments in real estate companies. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the client accounts might suffer a significant loss.

**Risks Associated with Equity Ownership.** Certain client accounts may acquire fee simple title to real estate or take a preferred equity or joint venture position in a property-owning entity (client accounts may also acquire an equity position if they foreclose on a loan as lender). In such a case, such client accounts' interests may be subordinate to both general and secured creditors of the asset. This subordination could increase such client accounts' risk of loss. Moreover, acquisition of preferred equity or joint venture interests involves certain risks not present in real property loans or direct property ownership. For example, there is the possibility that other equity owners may have economic or business interests or goals which are inconsistent with those of applicable client accounts.

**Inability to Re-Sell or Re-Lease Properties.** There is no assurance that AREMH's client accounts that own real estate or equity investments in real estate can re-lease a property, or successfully reposition the property for other uses, or that a replacement tenant or a different use would support the same or higher level of lease payments. Moreover, there can be no assurance that any tenant will elect to extend a lease upon expiration of its term, which would also force AREMH's applicable client accounts to find a suitable replacement tenant. For example, there

are existing leases at certain of the properties securing certain client accounts' investments that will expire during the terms of the related loans and there can be no assurance that such leases will be renewed or that, if renewed, the terms would be similar to or more favorable than the terms of the prior lease. If a property is not occupied or if rent is not being paid or is being paid in an amount that is insufficient to cover operating expenses, AREMH's client accounts could be required (or elect) to expend funds with respect to that property, including expenses relating to taxes, insurance, utilities and maintenance of the property, as well as leasing commissions and costs to improve the property to enhance its marketability or to meet the requirements of a new tenant. AREMH's client accounts that own real estate or equity interests in real estate may or may not be able to sell a property if or when they decide to do so. AREMH cannot predict whether they would be able to sell any property for the price or on the terms they set, or whether any price or other terms offered by a prospective purchaser would be acceptable to such client accounts. AREMH cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. AREMH's applicable client accounts may not be able to sell a property "as is," in other words, they may be required to expend funds to correct defects, such as defects related to the environment, health or safety or maintenance or repair. AREMH's client accounts may also be required to make improvements before a property can be sold. There is no assurance that AREMH's client accounts will have funds available to correct defects or make improvements. Furthermore, the expenditure of funds to correct defects or make improvements may adversely affect the funds available for investment by AREMH's client accounts and cash available for distribution to the Fund investors.

**Risks Associated with Environmental Liabilities.** To the extent client accounts own real estate (including through the foreclosure on properties with respect to which they have extended mortgage loans), such client accounts may be subject to environmental liabilities. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property becomes liable for removal costs, the ability of the owner to make payments may be reduced, which in turn may adversely affect the value of the relevant asset held by such client account. The presence of hazardous substances on a property may adversely affect a client account's ability to sell the property and the client account may incur substantial remediation costs.

**Cybersecurity.** AREMH and its service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect client accounts and/or investors in the client accounts, despite our efforts and the efforts of our service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to a client account or other investors in client accounts. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to our systems, the systems of our service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or

other users of our systems to disclose sensitive information in order to gain access to our data or that of a client account's investors. A successful penetration or circumvention of the security of our systems could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause our client accounts, service providers or us to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. Similar types of operational and technology risks are also present for portfolio companies, which could have material adverse consequences for such portfolio companies, and may cause a client account's investments to lose value.

### **Additional Risk Disclosure.**

Funds managed by AREMH may engage in activities that involve risks other than those described herein. In addition to the risk disclosures contained herein, investors are encouraged review the relevant offering materials associated with the investments in which they currently are participating or in the future, may participate, in order to get additional details about any specific risk factors that may relate to that particular investment(s).

## **Item 9 - Disciplinary Information**

Neither AREMH nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to a client's evaluation of our business or the integrity of our management. AREMH, its affiliates and certain senior professionals have been included in certain proceedings relating to portfolio companies and investments. No proceeding or action of any type has been resolved or otherwise determined in an adverse manner to AREMH, or its principals and none of AREMH, or any principals have been assessed or paid monetary damages or penalties in connection with any such proceeding. This does not include legal or disciplinary proceedings against companies in which the Funds invest.

## **Item 10 - Other Financial Industry Activities and Affiliations**

### ***Registered Broker-Dealers***

Ares Management, the parent company of AREMH, has a wholly owned limited-purpose broker-dealer subsidiary, Ares Investor Services LLC ("AIS"), which had its membership with FINRA approved on January 2, 2014. The Firm's Chief Compliance Officer is a registered principal of AIS and serves as its Chief Compliance Officer ("CCO").

### ***Relationships with Related Persons***

Ares Management, the parent company of AREMH, is also the parent company of:

- (i) Ares Capital Management LLC ("ACM"), which is an SEC-registered investment adviser and the investment manager of Ares Capital Corporation ("ARCC"), a closed-end, non-

diversified specialty finance company that is regulated as a business development company under the Investment Company Act. ACM also provides advisory services to certain other institutional accounts;

- (ii) Ares Capital Management II LLC (“ACM II”), an SEC-registered investment adviser and the investment adviser of Ares Dynamic Credit Allocation Fund, Inc. (“ARDC”; NYSE:ARDC) a non-diversified closed-end registered management investment company. ACM II also provides advisory services to pooled investment vehicles and other institutional accounts;
- (iii) Ares Capital Management III LLC (“ACM III”), an SEC-registered investment adviser, ACM III provides advisory services primarily to pooled investment vehicles and other institutional accounts;
- (iv) Ares Commercial Real Estate Management LLC (“ACREM”), an SEC-registered investment adviser. ACREM provides advisory services to Ares Commercial Real Estate Corporation (“ACRE”), a publicly traded commercial mortgage REIT. ACREM also provides advisory services to pooled investment vehicles and other institutional accounts;
- (v) Ares EIF Management, LLC (“Ares EIF”), an SEC-registered investment adviser. Ares EIF specializes in private investment opportunities in the U.S. power sector and advises pooled investment vehicles that invest in that sector;
- (vi) Ares CLO Management LLC (“ACLOM”), an SEC-registered investment adviser primarily advises CLOs, CDOs and other structured investment vehicles;
- (vii) CION Ares Management, LLC (“CAM”), an SEC-registered investment adviser and the investment adviser of CION Ares Diversified Credit Fund;
- (viii) Ares Management Limited (“AML”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority. AML also provides advisory services to certain other institutional accounts;
- (ix) Ares Management UL Limited (“AMUKL”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority. AMUKL also provides advisory services to certain other institutional accounts; and
- (x) Ares European Loan Management LLP (“AELM”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority. AELM also provides advisory services to certain other institutional accounts.

In addition, ARCC directly or indirectly owns equity and voting interests of its portfolio company, Ivy Hill Asset Management, L.P. (“Ivy Hill”), an SEC-registered investment adviser.

AREMH’s related parties also include affiliates of Ares Management’s that are investment advisers to the various investment management clients managed within the Ares platform,

including the Funds, and are the general partners and, in many cases, limited partners of such funds.

AREMH and its related persons are the sponsors and, in certain cases, may also be investors in various Funds managed by AREMH. Certain AREMH personnel may spend substantially all of their business time on one or more of the foregoing Funds as required pursuant to the terms of the relevant Governing Documents.

In the event that an investment opportunity that AREMH evaluates for potential investment by its clients is an eligible investment for more than one client, it is AREMH's policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account all relevant facts and circumstances. See discussion under Item 6 – *"Performance-Based Fees and Side-by-Side Management"* above for more detail on AREMH's allocation policy.

Principals, officers and certain employees of AREMH members of their families and related persons of AREMH may participate directly or indirectly as investors in certain Funds managed by AREMH as described in the Governing Documents of such collective investment vehicles, which investments may be in privately negotiated transactions at varying prices.

AREMH may recommend to clients the purchase or sale of securities in which it, a principal, officer, employee or related person thereof, has a financial interest. In addition, AREMH permits its principals, officers and employees to engage in personal securities transactions, subject to compliance with its Code of Ethics.

For a general discussion of how we address resulting conflicts of interest, see discussion under Item 11 – *"Code of Ethics"* below.

### ***Selection or Recommendation of Other Advisers***

AREMH does not recommend or select other third-party investment advisers for its clients. Except for Ares Management (AREMH's indirect parent company), ACM, ACM II, ACM III, ACREM, Ares EIF, ACLOM, CAM, AML, AMUKL and AELM, each a subsidiary of Ares Management, and AREMH's related person, Ivy Hill, AREMH does not have business relationships with other advisers that create a material conflict of interest.

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

### ***Statement of Business Ethics and Code of Ethics***

Ares Management has adopted an Ethics Policy (the "Code") pursuant to Rule 204A-1 under the Advisers Act that applies to AREMH and sets forth standards of business and fiduciary conduct that the AREMH requires of Covered Persons (as defined in the Code). The Code is reasonably designed to minimize actual or potential conflicts of interest between Covered Persons and the interest of the AREMH, its clients and prevent violation of federal securities laws. The Code

includes, among other things, a) policies and procedures regarding personal securities transactions; b) disclosure and reporting obligations of personal securities transactions and holdings; and c) obligations for Covered Persons to report any violations of the Code to Ares Management's CCO. Any client or prospective client or investor or prospective investor in ARHEM or other client account managed by AREMH may obtain a copy of the Code upon request to:

Ares Real Estate Management Holdings LLC  
Attn: Compliance Department  
2000 Avenue of the Stars, 12<sup>th</sup> Floor  
Los Angeles, CA 90067

***Participation or Interest in Client Transactions; Personal Trading***

The Code provides that no Covered Person may engage directly or indirectly in any business in a manner detrimental to the clients or use confidential information gained by reason of his or her employment by or affiliation with Ares Management in a manner detrimental to clients. The Code requires that before, or at the time that, a Covered Person recommends or authorizes the purchase or sale of a covered security by a client, he or she must disclose to the CCO: a) any beneficial ownership in such covered security that he or she has or proposes to acquire; b) any interest he or she has or proposes to acquire in any third party account in which such covered security is held; c) any beneficial interest in any other security that may benefit from such proposed purchase, sale or other action; and d) any interest in or business relationship with the issuer of such covered security that a Covered Person and his or her "covered family members" (as defined in the Code) has or proposes to acquire.

The Code covers personal trading policies and procedures of all Covered Persons and their covered family members. Under the Code, Covered Persons and their covered family members are permitted to trade in securities for their own accounts so long as they follow the Code, which contains certain preclearance requirements, reporting requirements and other provisions that restrict trading by Covered Persons. Generally, for "covered securities" transactions in a Covered Person's or a covered family member's account, Covered Persons are required to obtain preclearance approval from the Compliance Department. Covered securities purchased by a Covered Person or a covered family member are generally subject to a minimum holding period. The Code also requires that all covered securities holdings and transaction information in covered securities accounts be disclosed to the Compliance Department. Any transactions by a Covered Person in securities or investments that are held by one or more clients are generally subject to a blackout period after any client has traded or cancelled a trade in any security of that issuer. The Code's personal trading procedures are administered by Ares Management's Compliance Department. On a quarterly basis, Covered Persons must provide a report on all applicable transactions in any covered security in which they have acquired direct or indirect ownership and any brokerage accounts that they or covered family members maintain. On an annual basis, Covered Persons must provide a full accounting of their covered securities holdings. Lastly, Covered Persons are required to certify that they have read and understand the Firm's compliance policies and procedures including the Code, and certify that they have complied with the provisions of the Code on a periodic basis.



### ***Other Potential Conflicts***

From time to time, subject to the applicable Governing Documents, a Fund may engage in cross trades with one or more other Funds, typically for purposes of rebalancing its portfolios, in order to further such participating Fund investment programs, or for other reasons consistent with the investment and operating guidelines of such participating Funds. Neither AREMH nor our affiliates will receive commission or similar fees in connection with such cross trade. Generally, the value of any positions that are cross-traded in this manner will be determined in a manner that is consistent with applicable policies.

AREMH and its related persons may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain collective investment vehicles managed by AREMH in connection with certain “warehousing” transactions, provided that the sale is consistent with AREMH’s fiduciary obligations to such collective investment vehicles. Such transactions will be fully disclosed in writing, and the written consent of the appropriate Funds (which, in certain circumstances, may be provided by a collective investment vehicle’s advisory committee) will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Advisers Act and all other applicable state and federal securities laws.

AREMH’s principals may invest or transact with certain Funds managed by AREMH, as described in the applicable Governing Documents.

Certain Ares Management personnel may receive discounts on products and services offered by companies in which a fund or other client of Ares Management is an advisor or investor or otherwise has interest, similar to what would be given to an employee of such company. In addition, Ares Management may engage certain of its funds’ or other clients’ portfolio companies to provide goods and services. In these instances, Ares Management engages with the portfolio company at an arm’s length, and the portfolio company provides the same pricing and service levels as it would any comparable client or purchaser. In addition, before entering into any business relationship with any fund’s or other client’s portfolio company, the arrangements are reviewed by Ares Management’s Chief Legal Officer or CCO, who must approve each arrangement on a case-by-case basis.

Ares Management also requires certain outside business activities to be reported and monitored to avoid potential or actual conflicts of interest. Such activities require prior written approval from the CCO and the Covered Person’s direct supervisor and may be subject to restrictions or conditions. Such approval is revocable at any time.

On occasion, certain investment vehicles managed by AREMH or one of its affiliated investment managers may take equity or debt positions in certain assets alongside other investment vehicles managed within other business units of Ares Management. Such joint positions may create a conflict between the participating investment vehicles such that the strategy of the underlying investment may differ. In such cases the relevant manager seeks to manage the investment in good faith and in the best interest of its client. Refer to the Side-by-Side Management language above in Item 6 – “*Performance-Based Fees and Side-by-Side Management.*”

On occasion, certain investment vehicles managed by AREMH or one of its affiliated investment managers may invest in certain assets alongside other investment vehicles managed by AREMH or by another business unit of Ares Management. For example, a predecessor Fund and successor Fund may invest on a side-by-side basis in order to utilize any remaining available capital of the predecessor fund and also make the first investment of the successor fund. In addition, a client managed by AREMH may invest alongside another client managed by AREMH or managed by an affiliated Ares manager. When determining whether a joint investment is appropriate, AREMH will consider the investment objectives, remaining lifespan, liquidity requirements, control rights and other factors that it deems appropriate in order to evaluate how the participation in the joint investment is appropriate for its advisory client(s). AREMH may also seek the consent of the client for such joint investment if required under the Governing Documents. Such investments involve risks that are not present when advisory clients are investing on a standalone and independent basis. During the life of the investment, the investment interests of the clients may diverge and one client may dispose of its interest in the investment separately, which may depress the market value of the continuing investment for the remaining client. Further, the interests of the advisory clients may conflict, and AREMH will seek to manage any such conflicts in good faith and in the best interests of its advisory client(s).

## Item 12 - Brokerage Practices

Subject to the investment objectives, policies and restrictions of each client account as set forth in the Governing Documents thereof, AREMH has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each client account, including the selection of, and commissions paid to, brokers.

In certain transactions, including but not limited to investments in CMBS, AREMH may effect transactions through a broker-dealer. In selecting broker-dealers to effect transactions, AREMH seeks to obtain best execution by considering various factors including, but not limited to, price (including the applicable brokerage commission or dealer spread), size of order, timeliness and certainty of execution, liquidity of the securities traded, expertise as it relates to specific securities, counterparty risk and business reputation. While AREMH generally seeks reasonably competitive trade execution costs, a client account will not necessarily pay the lowest spread or commission available.

### *Research and Other Soft Dollar Benefits*

Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) provides a safe harbor that permits advisers, when selecting brokers to execute transactions for client accounts, to take into account certain research products and services provided to the adviser by brokers. AREMH does not engage in soft dollar arrangements.

AREMH will not consider, in selecting or recommending broker-dealers, whether it will receive client referrals.

AREMH does not permit clients to direct brokerage.

### ***Trade Aggregation***

To the extent AREMH invests in securities instruments for its client accounts, it may aggregate orders. Under AREMH's policy respecting aggregation of orders, orders for the same investment, including acquisition and disposition transactions, entered on behalf of more than one client may be aggregated (i.e., blocked or bunched), subject to the aggregation being in the best interests of all participating clients. The trade order must indicate the amount or percentage of the trade intended to be allocated to each participating client. If the final allocation differs from the initially indicated allocation or is not allocated on a pro rata basis for partially filled orders, except in the case of de minimis changes in the allocations, a written rationale must be provided in the allocation statement.

## **Item 13 - Review of Accounts**

### ***Review of Client Accounts***

AREMH monitors all portfolio investments on behalf of each client account on an ongoing basis. Investments are reviewed in the context of each client account's (i) adherence to the investment objectives and guidelines as set forth in its Governing Documents and (ii) investment performance. Subsequent to an initial investment, each position is monitored on an ongoing basis by at least one investment professional. The monitoring may include ongoing dialogue with a borrower's management, property management personnel, leasing agents, financing sources, rating agencies, competitors, and other industry sources. In addition, a client's investments as well as a client's overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by senior investment professionals, including portfolio managers.

### ***Reports to Clients***

AREMH provides periodic reports to investors in Funds it manages as required by the applicable Governing Documents or otherwise agreed upon with a client or investor. Investors in such Funds should refer to the applicable Governing Documents for further information regarding the types and substance of the reports provided to such investors.

The Governing Documents of, or U.S. federal securities laws applicable to, Funds managed by AREMH require annual audited financial statements to be distributed to the investors in such Funds. Furthermore, AREMH also generally provides on a periodic basis (typically, quarterly), unaudited performance and financial reports written to investors in such Funds. In connection with the delivery of such periodic reports, AREMH may be required by investors in certain Funds managed by AREMH to make the appropriate personnel available to present the reports and answer questions in respect thereof, or to make additional reasonable presentations and reports.

AREMH distributes federal income tax-related schedules and information to investors, where applicable, and provides certain other reports and analyses to investors and potential investors upon request.

## Item 14 - Client Referrals and Other Compensation

### *Economic Benefits Received from Third Parties*

No one other than the Clients provide an economic benefit to AREMH for providing investment advice or other advisory services to the Clients.

### *Third Party Compensation for Client Referrals*

To the extent AREMH compensates a third party for investor referrals, the cost of such services are borne entirely by the Firm and not by any client account.

AREMH will not compensate any placement agents or solicitors for an introduction to, or to influence any investment decision making process in connection with, any potential U.S. public pension fund clients or investors. AREMH may engage with intermediaries such as consultants, in connection with potential clients or investors, including those hired by U.S. public pension funds that may engage such consultants to assist with their investment advisory needs.

As part of the services that Ares provides to AREMH, Ares Investor Services LLC (“AIS”) may act as a placement agent for client accounts. AIS is a subsidiary of Ares Management LLC, a broker-dealer registered with the SEC and is a member of the Financial Industry Regulatory Authority. AIS does not currently participate in the distribution of non-affiliated products. No client account will directly pay any compensation to AIS. AREMH and Ares are responsible for paying certain expenses of the operation of AIS with respect to brokerage services performed by AIS in connection with any offering. All registered representatives of AIS are employees of Ares Management LLC or its affiliates.

## Item 15 - Custody

It is AREMH’s general policy to not have physical custody of any client assets. However, AREMH may be deemed to have custody of the assets of certain Funds it manages because of the authority it or a related party has over such Funds or their assets. It is AREMH’s policy generally to cause each Fund with assets over which AREMH is deemed to have “custody” to be audited annually and to distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), to investors no later than 120 days after the end of each fiscal year (180 days if the client is a “fund of funds”). In addition, upon the final liquidation of any such collective investment vehicle, AREMH will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

In the alternative, where AREMH is deemed to have custody of a client account solely due to its ability to withdraw client funds to pay its advisory fees, AREMH may comply with the custody rules under the Advisers Act by having a reasonable belief that a qualified custodian will send quarterly account statements to each investor or client and AREMH urges all clients and investors to compare the reports they receive from AREMH to the statements they receive from their custodians. Any issues or discrepancies should be communicated to AREMH promptly.

## Item 16 - Investment Discretion

Subject to the investment objectives, policies and restrictions of each client account managed by AREMH, as set forth in the Governing Documents thereof, AREMH may have discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each such Fund, including the selection of, and commissions paid to, broker-dealers.

## Item 17 - Voting Client Securities

Client accounts managed by AREMH may infrequently acquire voting securities. In instances where a client account owns equity securities in which it has the right to vote via shareholder proxy (each a “Voting Security”), AREMH generally retains proxy voting authority with respect to these Voting Securities. Ares Management has adopted and implemented written Proxy Voting Policies and Procedures (“Proxy Voting Procedures”) that are applicable to its affiliates, including AREMH, and are designed to reasonably ensure that AREMH votes proxies in the best interests of its advisory clients for whom AREMH has voting authority.

The Proxy Voting Procedures describe the positions AREMH generally takes in voting proxies on particular issues and require AREMH to keep records with respect to the votes cast.

The Proxy Voting Procedures also provide that, in the event a particular proxy vote would involve a conflict between the interests of AREMH and its affiliates, and those of one or more clients of AREMH, AREMH, if it so elects, may:

- vote in accordance with the recommendations of a disinterested third party;
- refer the voting decision to the client; or
- abstain from voting.

Some examples of potential conflicts can include;

- AREMH provides investment advice to an officer or director of an issuer and AREMH receives a proxy solicitation from that issuer;
- an issuer or some other third party offers AREMH or an employee, officer, director, partner or member of Ares Management (an “Associate”) compensation in exchange for voting a proxy in a particular way;
- an Associate or a member of an Associate’s household has a personal or business relationship with an issuer;
- an Associate has a beneficial interest contrary to the position held by AREMH on behalf of its clients;
- AREMH holds various classes and types of equity and debt securities of the same issuer contemporaneously in different client portfolios; or
- any other circumstance where AREMH’s duty to service its clients’ interest could be compromised.

AREMH will not delegate its voting authority to any third party, although it may retain an outside service to provide voting recommendations and to assist in analyzing votes.

Clients may obtain a copy of Ares Management's Proxy Voting Procedures or information about how AREMH voted client proxies by contacting Ares Management's Compliance Department at (310) 201-4100.

## Item 18 - Financial Information

Not Applicable.