

# AECOM-Canyon Partners Real Estate Fund Advisors LLC

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This brochure provides information about the qualifications and business practices of AECOM-Canyon Partners Real Estate Fund Advisors LLC (“AECOM-Canyon” or the “Adviser”). If you have any questions about the contents of this brochure, please contact Doug Anderson at (310) 272 1360. 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. Registration as an investment adviser does not imply a certain level of skill or training.

**Additional information** about AECOM-Capital also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This last update to this brochure was made in March 2020. We added an additional risk disclosure with respect to COVID-19 and LIBOR Transition. We do not believe there are any material changes associated with this update.

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## Advisory Business

AECOM-Canyon Partners Real Estate Fund Advisors LLC (“AECOM-Canyon” or the “Adviser”) is a newly formed joint venture between AECOM Capital Real Estate, LLC (“ACRE”) and Canyon Partners Real Estate LLC (“CPRE” and together with ACRE, the “Sponsors”). AECOM-Canyon will provide discretionary advisory services to private investment vehicles (referred to hereinafter as a “Fund” or a “Client” or collectively as “Funds” or “Clients”). As of December 2019, AECOM-Canyon had one (1) Client and regulatory assets under management of approximately \$520 million.

The Adviser will focus on capital appreciation primarily by investing in co-general partner equity (“Co-GP Equity”) opportunities in development and value-add commercial real estate projects located in the top ~25 markets across the United States. The Adviser will invest in high-quality, large scale “build-to-core” development projects that the Adviser believes have significant growth potential and/or strong long-term prospects for value creation.

The term “Co-GP Equity”, sometimes known as “Co-Developer Equity”, refers to a part of the capital stack of a real estate project created when two general partners (“Co-GPs” or “Co-Developers”) enter into a joint venture (an “Operating Partner JV”) in order to co-develop and jointly lead the execution of a single real estate joint venture project (which may include multiple underlying properties) (a “Project JV”). (Typically, a Fund’s Operating Partner JVs will seek passive investment capital (i.e., capital with no control rights over project execution) for the Project JV that will generally be provided by a “Project LP”. In some cases, the Project JV may be a co-investment vehicle comprised of Fund investors.) While the terms of each Project JV are negotiated on a deal-by-deal basis, Co-GPs generally receive enhanced economics in exchange for bringing value to a Project JV in the form of complementary expertise and resources, and for contributing to the Project JV’s development responsibilities and obligations. Co-GP contributions may include any or all of the following: (a) identifying and sourcing the real estate development opportunity, (b) underwriting the real estate development, (c) negotiating a purchase and sale agreement to secure the real estate development, (d) conducting due diligence, (e) formulating the real estate development’s business plan, (f) securing financing for the real estate development, (g) providing any guarantees required by lenders, (h) closing the transaction, (i) managing the development post-closing, (j) executing the development’s business plan, which may include pre-development work, construction/renovation and/or leasing and stabilization, (k) managing the sales and marketing process for the realization or disposition of the developed real estate asset and (l) executing on the realization or disposition of the developed real estate asset in order to harvest returns.

The Adviser will generally seek to partner with an experienced Co-GP Partner to form and capitalize an Operating Partner JV that will operate each project through a Project JV, but, in some instances, a Fund may act as the sole operating partner. A Fund will generally hold its interest in the Operating Partner JV through a special purpose entity formed for the purpose of serving as a Co-GP in the Operating Partner JV (the “Fund Co-GP SPE”).

In addition, where practicable, the Adviser will seek to make arrangements with Co-GP Partners in particular Project JVs to offer certain Fund investors (as determined in the Adviser’s sole discretion) (“LP Co-Investors”) the opportunity to make investments in those Project JVs (“Co-Investments”) as traditional limited partners (“LP Equity”).

Advisory services are generally not tailored to the individual needs of Fund investors and Fund investors are generally not permitted to impose restrictions on investing in certain investments or types of investments.

## **The Adviser**

As noted above, the Adviser is a joint venture between ACRE, a wholly-owned subsidiary of AECOM Capital, Inc. (“ACAP”), the direct investment arm of AECOM (NYSE:ACM) (“AECOM”), and CPRE. The Adviser will bring together a combination of complementary areas of expertise and experience from the Sponsors and will leverage the Sponsors’ capabilities jointly across numerous functions. Each of ACRE and CPRE are registered investment advisers and more information about ACRE and CPRE is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **AECOM**

AECOM is a fully integrated firm that designs, builds, finances and operates infrastructure assets for governments, businesses and organizations. Headquartered in Los Angeles, California, AECOM has 87,000 employees in more than 150 countries on 7 continents. AECOM provides planning, consulting, architectural and engineering design services to commercial and government clients worldwide in major end markets such as transportation, facilities, environmental, energy, water and government markets. AECOM also provides construction services, including building construction and energy, infrastructure and industrial construction, as well as program and facilities management and maintenance, training, logistics, consulting, technical assistance and systems integration and information technology services, primarily for agencies of the U.S. government and also for national governments around the world. AECOM’s construction arm includes Tishman Construction Corporation (“AECOM Tishman”) and Hunt Construction Group (“AECOM Hunt”).

## **ACRE**

ACRE is a wholly-owned subsidiary of ACAP (described below), formed in 2018 to provide commercial real estate investment advisory services to pooled investment vehicles and other client accounts.

## **ACAP**

ACAP was formed in 2013 to invest in and develop real estate, public-private partnership (P3) and infrastructure projects. ACAP focuses on investments that can leverage the expertise and value provided by AECOM’s fully integrated platform across design, engineering and construction services. ACAP’s investment strategy since its inception has been to focus on Co-GP Equity investments where ACAP can add value by providing investment capital, credit enhancement and design, development and construction expertise. ACAP has a team of 22 professionals, with backgrounds in institutional investing, private equity, development and construction management, architecture and engineering services, accounting and law. ACAP also benefits from the financial backing, infrastructure and resources of AECOM. ACAP has offices in New York and Los Angeles.

## **Canyon Partners**

Canyon Partners is headquartered in Los Angeles, California, with additional offices in London, New York, Shanghai, Tokyo, Seoul, and Hong Kong. Canyon Partners is the majority owner of Canyon Capital Advisors LLC (“CCA”), a global alternative asset manager. The predecessor to CCA was founded in 1990 by Joshua S. Friedman and Mitchell R. Julis, while the predecessor to CPRE was founded in 1991.

## **CPRE**

CPRE is a commercial real estate owner, lender and operator that acquires, finances, develops, manages and sells commercial real estate on behalf of its investors. CPRE is headquartered in Los Angeles, with an additional office in New York, and has investment personnel located in Texas and Florida.

CPRE's investment approach is characterized by its due diligence and market research, structuring, and active in-house asset management, all of which are designed to mitigate downside risk and maximize the likelihood of positive returns at an investment's realization. In addition, CPRE has entered into multiple joint venture fund relationships and has substantial experience working constructively with its joint venture partners to perform due diligence, underwrite investments, make investment decisions and perform asset management responsibilities.

CPRE has a team of investment professionals dedicated to real estate originations/acquisitions and asset management. CPRE also benefits from the financial backing, infrastructure and resources of Canyon Partners. Messrs. Friedman and Julis provide active oversight of CPRE and its operations

## **Fees and Compensation**

The Adviser will receive an asset-based management fee from each Fund that is typically payable quarterly in advance, as further described in the applicable Fund's governing documents. If the Adviser's advisory agreement with a Fund is terminated, management fees will be charged on a *pro rata* basis through the date of termination, and any fees paid in advance but not earned will be refunded. The general partner of a Fund will generally make capital calls on Fund investors for the amount of the Adviser's management fees and pay the amounts received to the Adviser. In addition to the management fees described above, the Adviser will generally also be entitled to receive a carried interest allocation from a Fund after certain performance hurdles have been met, as further described in the applicable Fund's governing documents. Such carried interest represents a portion of a Fund's net investment profits.

It is anticipated that the Adviser may receive similar asset-based management fees and carried interests from the GP Equity Co-Investment Vehicles and LP Equity Co-Investment Vehicles that it organizes in the future. Limited partners in the Funds should review the applicable Fund's governing documents carefully for a full description of the fee revenues and other compensation that the Adviser may receive from such Fund.

The management fees and carried interest are generally subject to waiver or reduction by the general partner with respect to some or all of a Fund's limited partners in the general partner's sole discretion, as further described in the applicable Fund's governing documents.

In general, each Fund will bear all costs and expenses incurred in connection with the organization of the Fund, the Fund's general partner and the Adviser, including the arrangements between the Sponsors relating to a Fund's general partner and the Adviser such as the costs of preparing the governing documents of a Fund's general partner and the Adviser, including legal and accounting fees, printing costs, travel and other out-of-pocket expenses, and all costs and expenses incurred in connection with the offering of interests in a Fund (but not any placement fees or travel-related expenses incurred by the Sponsors in connection with the marketing of a Fund) ("Organizational Expenses"), up to a maximum amount specified in the applicable Fund's governing documents. Organizational Expenses in excess of this amount, and any placement fees, will be paid by a Fund but borne by the Adviser through a 100% offset against such Fund's management fee.

In addition, each Fund will generally be responsible for all expenses relating to its own operations (“Fund Expenses”), including, without limitation, (a) any management fees; (b) fees, costs and expenses related to the due diligence, evaluation, purchase, holding, development, management, monitoring and sale of investments, including, without limitation, travel, accommodation, meal and entertainment expenses related to such investments or proposed investments, syndication fees, bank charges, closing and execution costs, sales commissions, finders and brokers fees, appraisal fees and taxes; (c) principal, interest, fees, costs and expenses and other amounts payable relating to financings (including any credit facility); (d) fees, costs and expenses relating to third-party services, including custody, legal, accounting, consulting, investment banking, administrative, tax, audit, depository, safekeeping and other professional costs, including those services provided by the Sponsors or other affiliates of a Fund’s general partner or the Adviser; (e) any insurance or indemnity expenses (including the cost of premiums with respect to any directors and officers or similar insurance for the employees of the Adviser (i.e., employees of the Sponsors performing services for the Adviser)); (f) fees, costs and expenses relating to a Fund’s administration, including administrative services and preparation of a Fund’s financial statements and reports to limited partners, which may be provided by the Sponsors or other affiliates of a Fund’s general partner or the Adviser; (g) fees, costs and expenses relating to investor meetings and meetings with individual limited partners; (h) fees, costs and expenses relating to a Fund’s limited partner advisory committee, including out-of-pocket expenses of its members; (i) any taxes (except for taxes attributable to a particular Investor), fees or other governmental charges levied against a Fund; (j) fees, costs and expenses associated with environmental, property management, engineering, construction and related services, including services provided by the Sponsors or other affiliates of a Fund’s general partner or the Adviser; (k) fees, costs and expenses related to structuring, organizing, operating and maintaining investment vehicles through which the Fund’s investment activities are conducted (including any GP Equity Co-Investment Vehicles and LP Equity Co-Investment Vehicles, to the extent they fail to launch); (l) fees, costs and expenses relating to un consummated transactions, including, without limitation, the fees, costs and expenses described in clause (b) above, and including amounts that would otherwise have been borne directly or indirectly by potential co-investors were such transactions consummated; (m) fees, costs and expenses related to the dissolution, liquidation and termination of a Fund and a Fund’s general partner; (n) fees, costs and expenses incurred in connection with any restructuring or amendments to the offering or constituent documents of a Fund; (o) expenses incurred in connection with the collection of amounts due to a Fund from any person, including amounts relating to defaults by limited partners in the payment of capital contributions; (p) fees, costs and expenses incurred for research or obtaining information for a Fund or a Fund’s investments; (q) fees, costs and expenses relating to a Fund’s allocable portion of information technology and systems; (r) fees, costs and expenses (and damages) related to regulation, litigation, government inquiries, investigations or proceedings, in each case related to a Fund or its investments, including, without limitation, regulatory expenses of a Fund’s general partner and the Adviser related to the preparation and filing of Form PF and other similar regulatory filings; (s) expenses relating to compliance or filings related to the European Alternative Investment Fund Managers Directive; (t) expenses related to complying with the reporting requirements of Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended and certain regulations and other administrative guidance thereunder; (u) in the case of clauses (r) through (t) above, similar regulations and administrative requirements in other jurisdictions; (v) all costs, fees and expenses of a Fund’s “partnership representative;” (w) fees, costs and expenses incurred in connection with administering side letters or similar agreements entered into with limited partners, including the distribution and implementation of any applicable elections pursuant to “most-favored nation” (or similar clauses) or LP Equity or Co-GP Equity co-investment rights; and (x) any other costs, fees or expenses that, in the determination of a Fund’s general partner, in consultation with the Adviser, are reasonably incurred in connection with the operation of the business, the offering of interests and the maintenance of a Fund or a Fund’s general partner. To the extent any of the foregoing costs, fees or expenses are incurred for the benefit of a Fund and other entities managed by a Fund’s general partner, the Sponsors or their affiliates (including any parallel investment vehicle), a Fund’s general partner will make a good faith allocation of such costs, fees or expenses among a Fund(s) and such entities.

100% of any transaction, monitoring, consulting, breakup or similar fees received by the Adviser and its affiliates and employees in connection with a Fund's investments, net of unreimbursed transaction expenses incurred by the Adviser or its affiliates, will be applied to reduce a Fund's management fee for the following quarterly period ("Transaction Fees"). 100% of any placement fees paid by a Fund will be applied to reduce such Fund's management fee for the following quarterly period. For the avoidance of doubt, Transaction Fees will only include the portion thereof that is allocable to a Fund. In addition, the Project JV will generally pay development management fees ("Development Fees") to AECOM (or an AECOM affiliate) and/or the Co-GP partner, which will be based on the hard and soft development costs of the Project JV. However, only 50% of any Development Fees payable to AECOM or an AECOM affiliate in connection with any Project JV ("AECOM Development Fees") will be applied to reduce the Fund's management fee. For the avoid of doubt, neither CPRE or any of its affiliates will be entitled to any AECOM Development Fees.

To the extent such offsets would reduce a Fund's management fee for a given quarterly period to below zero, such offsets will be carried forward and reduce future installments of the management fee. If upon dissolution of a Fund, any excess Transaction Fee remains, the Company will return to a Fund for the benefit of the partners an amount equal to such unapplied excess amount; *provided*, that any limited partner may waive its right to receive its *pro rata* portion of such amount.

From time to time, AECOM or its affiliates may receive fees for providing construction, construction management, design, engineering, consulting, operations and maintenance or other similar services in respect of investments, at rates and on terms generally consistent with rates and terms as would be agreed on an arms' length basis for the provision of similar services to third parties by the applicable AECOM entity. Neither these non-development management fees nor any Guarantee (as defined below) fees received by AECOM or its affiliates will reduce the Fund's management fee (other than, for the avoidance of doubt, AECOM Development Fees, which will be treated as described above).

In addition, AECOM (or certain of its affiliates) will generally agree to provide completion, carry cost guarantees and certain other guarantees ("Guarantees") that project lenders may require in connection with approved investments where an affiliate of AECOM is acting as either the construction manager at risk, or the owner's representative, in connection with applicable projects. If AECOM provides any such Guarantees (whether or not it is the sole guarantor), it may receive a fee from the applicable Co-GP Partner (and not the Fund, the Operating Partner JV or the Project JV). In addition, if the funds are available, AECOM or an affiliate may recover the amounts paid under a Guarantee (other than payments that were the result of certain disabling conduct by AECOM or its affiliate), **plus a preferred return thereon. Please see the appropriate Fund's governing documents for additional information on the Guarantee.**

Similarly, if reserves available for a Project JV are depleted, AECOM will generally be required to make "Support Payments" to cover the Fund's share of certain non-budgeted completion and carrying cost overruns on behalf of the Fund (but not on behalf of the Fund's Co-GP Partner or any unaffiliated Project LPs). If AECOM makes any such Support Payments, then, upon the sale of any project, AECOM will be entitled to reimbursement of those Support Payments from the applicable Fund's share of the sale proceeds on terms that depend on the phase during which the Support Payments were made and whether completion of the project was timely. Generally, AECOM will be entitled to recoup any Support Payments it makes only after the Fund recoups its invested capital. However, if AECOM makes Support Payments after timely project completion but prior to stabilization, it will be entitled to recoup those payments before any distributions are made to the Fund. **Please see the appropriate Fund's governing documents for additional information on the Support Payment.**

The Adviser anticipates that the applicable Fund's governing documents for each Fund will have provisions that allow such Funds to borrow money for investment and other purposes. Such borrowings will generally be made prior to capital being called from Fund investors or even in lieu of calling capital. This mechanism may defer investor capital calls and provides a form of leverage that can have the effect of amplifying a Fund's reported net internal rate of return (IRR), particularly in the early years of a Fund's investment life. Such borrowings can also accelerate the date upon which a Fund's preferred return will be achieved for purposes of determining when the Adviser is entitled to begin receiving carried interest allocations from a Fund. In accordance with the terms of the applicable Fund's governing documents, interest payments and other fees and expenses incurred in respect of such borrowings are partnership expenses and such expenses will decrease a Fund's net returns over time.

***Investors should refer to each Fund's offering memorandum and other relevant documents for additional/supplemental information regarding a Fund as well as the fees and expenses associated with such Fund.***

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

As noted above, and discussed below in "Methods of Analysis, Investment Strategies and Risk of Loss – Certain Risk Considerations – Certain Conflicts of Interest" below, AECOM-Canyon anticipates earning a performance allocation or fee. At this time, all AECOM-Canyon Clients are charged a performance allocation or fee. However, because the actual performance allocation or fee charged to a specific Client may vary, there may be an incentive for AECOM-Canyon to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework or to favor those Clients with higher performance allocations or fees over Clients with lower performance allocations or fees. AECOM-Canyon seeks to mitigate this risk by, among other things, seeking to allocate investments in a fair and equitable manner over time among its Clients. For more information on AECOM-Canyon's allocation procedure, please see Brokerage Practices. In addition, AECOM-Canyon does not anticipate receiving performance based compensation on unrealized appreciation.

## **Types of Clients**

As of the date hereof, it is anticipated that the Adviser's only clients will be Funds, LP Equity Co-Investment Vehicles and GP Equity Co-Investment Vehicles. Fund investors are expected to include individuals, trusts, pension plans, corporations, and public and private entities. Fund investors must meet the investor qualifications associated with each Fund (which generally require Fund investors to be "accredited investors" and "qualified purchasers", as such terms are defined in the federal securities laws).

## **Methods of Analysis, Investment Strategies and Risk of Loss**

The Adviser will seek capital appreciation for its Client(s) primarily by investing indirectly through Operating Partner JVs in Project JVs that pursue ground-up development and value-add real estate opportunities with significant growth potential and/or strong long-term prospects for value creation. The Adviser will focus on build-to-core Co-Developer Equity investment opportunities for development or value-add repositioning of high quality commercial real estate assets. The Adviser will seek to invest in large-scale projects situated on prime development or redevelopment sites that, once developed, can be stabilized into well-leased, high-income producing core investments. The Adviser will target primary commercial real estate asset classes and projects generally located in urban infill locations within the top ~25 U.S. markets. Once Fund assets are developed, the Project JV business plan will be to stabilize the assets into well-leased, high-income producing core investments that are then sold to institutional core buyers seeking income-producing assets that can provide predictable yield. The Adviser estimates that the average holding period of each investment will be approximately 5 years.



## **Governance Structure**

Due to the nature of the Adviser, an entity which is owned by two separate registered advisers, the governance structure for the Adviser is a critical element in the management of investments.

*Generally.* The Adviser and the General Partner are both jointly owned and controlled by the Sponsors. (Solely for purposes of this Form ADV Part 2 the Adviser and the General Partner shall be referred to as the “Adviser”). Pursuant to their respective operating agreements, each of the Adviser and the General Partner will be managed by a Board of Directors (each, a “Board”), consisting of two representatives (each, a “Director”) of each Sponsor (four members in total). The Board is generally responsible for the management and control of the Adviser’s and the General Partner’s respective business and affairs, and must act unanimously. However, all major investment-related decisions will be vested in an Investment Committee of the Adviser, as described below. Each Sponsor will have certain defined roles and responsibilities related to the Adviser and their respective activities, as agreed between them and reflected in operational policies and procedures.

*The Investment Committee.* The Adviser will make all major investment and disposition decisions related to Client/Fund investments through its Investment Committee. The Investment Committee will generally consist of eight members (each, an “Investment Committee Member”), four of whom will be appointed by each Sponsor.

The Investment Committee will generally meet at least once per quarter, or more frequently as needed, with at least two members from each Sponsor required to constitute a quorum. Actions by the Investment Committee at any meeting will generally require unanimity among the Sponsors’ appointees attending the meeting. Investors should be aware, however, that each Investment Committee Member may, when voting to approve or disapprove any matter, take into account the interests of his or her appointing Sponsor, and that those interests may conflict with the interests of the Client/Fund. For additional information, please see “Certain Risk Considerations – Certain Conflicts of Interest” below.

Investments will only be acquired with the unanimous consent of the Investment Committee. If the Investment Committee fails to unanimously approve a Proposed Investment (as defined below), then the Sponsor whose Investment Committee Members voted in favor of such Proposed Investment will (to the extent consistent with the Adviser’s duties as an investment adviser to a Fund) be free to pursue such Proposed Investment independently (either by itself or through its affiliates).

*Investment Process.* For each proposed investment (a “Proposed Investment”), the Adviser will form a dedicated investment team consisting of “Investment Officers” for such investment (the “Investment Team”). Investment Officers will be charged with identifying and recommending potential investments for review and approval by the Investment Committee and for managing any investments that have been so approved. The Investment Team for each Proposed Investment will have regular pipeline and asset management calls, both prior to and after approval. The Investment Team will also provide the Investment Committee with regular updates (or as otherwise requested by the Investment Committee) regarding each Proposed Investment in process.

In order to present a Proposed Investment to the Investment Committee for approval, the Investment Team will prepare an Investment Memorandum (an “IC Memorandum”) that includes, among other things: (a) a description of the Proposed Investment; (b) underwriting analyses and projected returns; (c) a business plan and budget; (d) a summary of the results of the Investment Team’s due diligence investigations and a description of any proposed due diligence that remains to be performed; (e) a description of the terms of the Proposed Investment; (f) a description of the terms of any debt or other financing expected to be obtained by the Project JV in connection with the Proposed Investment; (g) a

description of the development and other fees that will be payable to AECOM or its affiliates, as well as the terms of any Project JV lender Guarantees AECOM or an affiliate would provide if the Project JV meets AECOM's underwriting criteria, in connection with the Proposed Investment; (h) a description of any other related party transactions and/or material conflicts of interest inherent in the terms or structure of the Proposed Investment; (i) copies of any letters of intent, memoranda of understanding or term sheets that have been executed with respect to such Proposed Investment; (j) the deadline for the approval of the Proposed Investment; and (k) other information as the Investment Committee deems appropriate for consideration.

The Investment Committee may approve a Proposed Investment (an "Approved Investment") after having reviewed and considered the IC Memorandum, which approval may be conditioned on certain modifications being made to the IC Memorandum and/or the submission of certain information, such development and other fee terms, upon such information becoming available. After this approval is received, the Investment Team for Approved Investment will take the necessary steps to consummate and manage that Investment on the terms of the approved IC Memorandum.

The Investment Team for each Approved Investment will provide the Investment Committee with periodic updates regarding such investment and will also notify the Investment Committee of any material change, deviation or inconsistency with, or material addition to, the information contained in the related IC Memorandum. This might occur, for example, as a result of a desired follow-on investment that is outside the scope of the current IC Memorandum for an investment. The Investment Team may propose a modification to an approved IC Memorandum, as a result of any such change, deviation, inconsistency, addition or otherwise. The Investment Committee will then formally consider such proposed modification at a meeting; if the Investment Committee does not approve that modified IC Memorandum, the memorandum, as previously approved by the Investment Committee will remain in effect with respect to the Approved Investment.

*Resolution of Deadlocks.* If an Investment Team is deadlocked with respect to any matter, then upon request by any Investment Officer, that matter will be submitted to the Investment Committee for resolution. If the Investment Committee is deadlocked with respect to any matter, then upon request by any Investment Committee Member, such matter will be submitted to the Manager's Board for resolution. If the Adviser's Board is deadlocked with respect to any matter, then upon request by any Director on the Adviser's Board, such matter will be submitted to the Sponsors for resolution. The Sponsors will then be required to use commercially reasonable efforts to negotiate in good faith to cause any such Board deadlock to be resolved. If the deadlock is not resolved through such negotiations within ten business days, then either Sponsor may submit the matter to non-binding mediation to be administered by a mutually agreed upon mediator within thirty days.

*The Advisory Committee.* The Adviser anticipates establishing an Advisory Committee (the "Advisory Committee") for a specific Fund consisting of not fewer than three and not more than seven voting members, who will be representatives of investors selected from among those who have made the largest commitments, and who are not affiliates of the Adviser. The Advisory Committee will meet annually and, as otherwise requested by the Adviser, resolve issues involving conflicts of interest as determined and presented by the Adviser and determine whether to approve certain other matters. Except where the approval of the Advisory Committee is expressly required, any actions taken by the Advisory Committee will be advisory only and the Adviser will not be required or otherwise bound to act in accordance with any recommendations made by the Advisory Committee or any of its members. However, the Advisory Committee will represent the investors as a group with respect to a specific Fund, and any action or transaction affirmatively approved by the Advisory Committee will therefore constitute an approval by, and be binding on, Fund investors.

## **Certain Risk Considerations**

*Below is a summary of certain risks. Clients and/or Fund investors should refer to each Fund's offering memorandum and other relevant documents for additional/supplemental information regarding risk.*

### **General Investment Risks**

#### **Possibility of Losses**

An investment in a Fund is speculative. A Fund's success will largely depend on the Adviser's ability to identify suitable investments and to negotiate advantageous terms for a Fund relating to such Investments. The Adviser may not be able to execute a Fund's investment objective or generate returns to Fund investors commensurate with the risks of the types of investments described in a Fund's offering documents. Therefore, any investment in a Fund should only be considered by persons who can afford a loss of their entire investment.

#### **No Assurance of Investment Return**

A Fund's investments will consist primarily of Co-GP Equity, and operating results in a specified period will be difficult to predict. There is no assurance that a Fund will be able to source, structure and manage investments through Operating Partner JVs in Project JVs that generate returns for investors. Even if one or more of a Fund's investments is successful, there can be no guarantee that investors will receive distributions from a Fund in an amount equal to their investment or at all.

#### **Performance Uncertainty**

The performance of a Fund is dependent on future events and is, therefore, inherently uncertain. The markets in which a Fund's Project JVs will operate have experienced severe disruptions in the recent past, so results observed in prior periods may have little relevance to the results observable in the current environment. There can be no assurance as to a Fund's performance in a weaker market or weakened economy or one in which real estate financing is scarce.

#### **Investor Commitment; Investment Realization**

An investment in a Fund is illiquid and requires a long-term commitment. Investors will be committed to a Fund for a number of years and may not make withdrawals, irrespective of materially adverse changes to the Adviser, the Sponsors, a Fund, Fund investments, economic conditions, applicable laws and regulators, taxes and/or such investor's own financial position or circumstances. The amount and timing of distributions to investors will depend on the distributable proceeds received by a Fund, which will depend in large part on the promote received in respect of a Fund's Operating Partner JVs and Project JVs following asset realization events, as well as the Adviser's determination of the amounts that a Fund will need to hold in reserve to meet expenses and financial commitments. As a general matter, the Adviser estimates that the average holding period of each investment will be approximately 5 years. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Any return of capital and the realization of gains, if any, will generally not occur for a number of years after the initial funding of an investment, and prior to such time, there may be no current return on an investment.

#### **Risks of Limited Number of Investments; Investment Performance**

A Fund may make a limited number of investments, each of which may involve a high degree of risk. As a result, the performance of a Fund may be significantly adversely affected by the unfavorable

performance of any single Project JV. Moreover, even if some of a Fund's Project JVs are ultimately quite successful, poor results from others could severely and adversely affect a Fund's overall performance, and investors could suffer impaired returns, or losses, as a result.

### **Uncertainty of Financial Projections**

A Fund generally will evaluate investments based upon financial projections generated by the Adviser. These projections will normally be based primarily on the Adviser's judgments based on current market conditions and the Sponsors' investment experience. In all cases, projections are only estimates of future results based upon assumptions made at the time the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections.

### **General Economic Uncertainty**

The global financial markets experienced significant disruptions from 2008 through 2009, during which time the global credit markets collapsed, real estate borrowers defaulted on their loans at historically high levels and banks and other lending institutions suffered heavy losses. Thereafter, during the second half of 2011 and throughout 2012, volatility in the financial markets resulting from the European sovereign debt crisis, U.S. debt ceiling crisis and U.S. government credit downgrade led to further uncertainty about the availability of capital. More recently, the immediate aftermath of the June 23, 2016 decision of United Kingdom voters to exit the European Union was characterized by pronounced price declines globally across a broad range of risk assets, as well as massive swings in currencies. In certain cases, these circumstances materially affected liquidity in financial markets, making terms for certain financings less attractive and resulting in the unavailability of certain types of financing. Instability in the financial markets in the future could be caused by any number of factors beyond a Fund's control, including, without limitation, terrorist attacks or other acts of war and adverse changes in national or international economic and market conditions, including further calls for referenda and political instability amongst member states of the European Union. Uncertainty in the financial markets may adversely affect the business and performance of a Fund's investments and, accordingly, the performance of a Fund.

### **ACRE and CPRE Relationship**

#### **Past Performance of Sponsors**

The General Partner and the Adviser were formed expressly for the purpose of carrying out the activities described herein. Performance information and reports of ACRE'S or CPRE's investment results (or those of their respective affiliates) are available from ACRE or CPRE upon request. These materials are furnished solely for illustrative purposes and are not necessarily indicative of the investment activities or operating results of a Fund, which will vary.

#### **Joint Sponsorship of General Partner and Adviser; Decision-Making Failures**

Each Fund will be a joint venture between ACRE and CPRE, the Sponsors. It will be operated and managed by the General Partner and the Adviser, respectively, which will be entities that are each jointly owned and controlled by the Sponsors. Although ACRE and CPRE expect to work cooperatively in implementing the Fund's investment program, there can be no assurance that ACRE and CPRE will agree on all matters, and because all major investment-related decisions affecting a Fund require consensus among ACRE and CPRE, any disagreements could result in deadlock or other decision-making failures. Such disagreements could arise from commercial interests of ACRE that differ from those of CPRE, including as a result of different economic interests in a Fund or a Fund's investments, or other

arrangements or agreements made or entered into by each respective Sponsor. While the Adviser has put in place policies and procedures which they believe are reasonably designed to avoid and manage disagreements that may arise and facilitate the smooth and efficient day-to-day management of the Adviser and a Fund's investments, including as it relates to disputes involving the Investment Committee, conflicts or deadlocks may still arise between the Sponsors in their respective roles in connection with a Fund, and there can be no assurance that deadlock or other decision-making failures will be successfully mitigated. Such failures could impede, delay or frustrate a Fund's investment program, cause a Fund to forego profitable investment opportunities or to not make follow-on investments or take other actions that preserve and/or enhance the value of existing investments, or they could diminish a Fund's ability to influence Operating Partner JVs' and Project JVs' operations, all to investors' detriment. Ultimately, repeated decision making failures could cause the Adviser to dedicate less time and resources to a particular Fund in favor of other business activities and ventures in the Sponsors' individual capacities. The Adviser cannot provide any assurances that they will agree on all material decisions related to a Fund and that disagreements will not have a negative effect on a Fund. Inherent in any joint venture is the potential for disagreement between the partners and no dispute resolution protocol can completely eliminate the risk of deadlock or decision-making failures under all circumstances. In the case of deadlock or other decision-making failure related to a Proposed Investment, the Sponsor that supported the approval of that investment may independently pursue that investment, subject to any fiduciary duties owed to the Adviser's other advisory clients, in which case a Fund would lose out on a potentially attractive opportunity. A Sponsor may have decided not to support such an investment for reasons unrelated to the investment's intrinsic characteristics and such lost opportunities are an inevitable consequence of a jointly sponsored vehicle where all major investment-related decisions affecting that vehicle are required to be made unanimously. Accordingly, no person should purchase interests in a Fund unless such person accepts the entrustment of all aspects of the management of a Fund to the General Partner and the Adviser and understands the potential consequences from deadlock or other decision-making failures by the Sponsors as it relates to a Fund's investment program and otherwise.

#### **Dependence on Key Manager Personnel; Business Activities of the Adviser**

A Fund will be largely dependent upon the expertise, skill and judgment of the members of the Investment Committee and the other employees of the Sponsors who perform services for the Adviser. These individuals are integral to a Fund's success because they are, among other things, responsible for attracting commitments, sourcing investment opportunities and assisting a Fund in the underwriting and negotiation of investments. The Directors, the Investment Committee Members and the other employees of the Sponsors that serve as officers of the Adviser are not under contractual obligation to remain with the Sponsors or to perform services for the Adviser for all or any portion of the term of a Fund. Competition in the real estate investment management services industry for qualified personnel is intense and increasing. The loss of one or more of certain key persons or lack of involvement in a Fund could have a material and adverse effect on the performance of a Fund.

Moreover, the Sponsors' employees will devote varying portions of their business time and attention to the affairs of the Adviser in relation to the Sponsors' other business activities and affairs. Neither Sponsor nor any of its principals, employees or affiliates is legally required to devote full time to the Adviser nor is the Adviser required to devote full time to any particular Fund. Those persons may conduct other businesses and provide investment advisory, real estate development and other services to other clients and accounts. The compensation arrangements with such other clients and accounts may be more lucrative than those with respect to a Fund and may create incentives for a Sponsor or its principals or employees to favor such other clients. Adverse changes in the relationship between the Sponsors could also cause a Sponsor to shift its resources to other activities. Investors will have no direct interest in the Adviser or either Sponsor's other businesses and those businesses may, over time, grow and expand in ways that detract from, or disadvantage, a Fund.

## **Advisers Act Compliance**

The Adviser has registered as an investment adviser under the Advisers Act. As the Adviser is jointly controlled, the Sponsors will need to make such arrangements as are necessary for the Adviser to comply with the regulatory filing and recordkeeping requirements generally required of SEC registered investment advisers, as well as certain requirements and prohibitions as to the Adviser's substantive activities. For example, the Adviser will establish and implement a compliance program, with policies and procedures that are appropriately tailored to the operational and regulatory risks inherent in the Adviser's commercial real estate investment activities (both those related to a Fund and otherwise), and adopt a compliance manual implementing that program. The Adviser has designated an employee of a Sponsor to serve as the Adviser's Chief Compliance Officer, with responsibility for overseeing the Adviser's compliance program and general Advisers Act compliance matters. This arrangement will require the Chief Compliance Officer to share information with the other Sponsor on an ongoing basis, which may take time to organize and standardize, and could elevate the risk of compliance shortcomings or failures. If there are gaps in information sharing during the initial risk assessment performed in connection with the development of the Adviser's compliance program or anytime thereafter, the Adviser's control procedures could be ineffective and other compliance deficiencies could arise. This, in turn, could elevate the risk of examination by the SEC and increased scrutiny of the Adviser's (and the Sponsors') advisory activities, both related to a Fund and otherwise. The Adviser's management of LP Equity Co-Invest Vehicles (defined below) alongside a Fund, with the potential conflicts with such Fund and investors inherent therein, may attract regulatory scrutiny by the SEC. Both ACRE and CPRE are registered as investment advisers under the Advisers Act and subject to examination by the SEC. If, as a result of compliance deficiencies or for any other reason, the Adviser (or a Sponsor) were found to have violated any laws or regulations applicable to registered investment advisers in connection with its advisory activities, the Adviser (or a Sponsor) could be subject to significant penalties and sanctions, it may have to make operational changes and its ability to continue managing a Fund could be seriously impaired or curtailed altogether.

## **Strategy Risks**

### **Operating Partner JVs; Co-GP Partners**

Investments are expected to be in the nature of Co-GP Equity—Operating Partner JVs, through which a Fund, together with Co-GP Partners, invest in Project JVs (all such terms are defined above). In such Operating Partner JVs, a Fund may share control or have limited control of the Operating Partner JV, and therefore, may have a limited ability to protect its interests. Co-GP Partners will, as the administrative partner of the Operating Partner JV, generally have a certain degree of authority and responsibility for the daily management of the Project JV's underlying real estate activities and a Fund will in large part be dependent on their ability to execute the Project JV's strategy. These joint venture arrangements may therefore create risks not present in Project JV investments in which a Fund acts as the sole operating partner, including dysfunctional management, increased costs, greater illiquidity, the possibility that the Co-GP Partner may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of a Fund or may be in a position to take or block certain actions, contrary to a Fund's investment objectives. Disputes that arise between a Fund and a Co-GP Partner could result in costly litigation and adverse reputational consequences to a Fund. If a Fund and a Co-GP Partner have the ability to dispose of their interests in the Operating Partner JV separately, a disposition by the Co-GP Partner party may depress the market value of a Fund's interest. In addition, agreements governing Operating Partner JVs often contain restrictions on the transfer of a joint venturer's interest, "buy-sell" mechanisms or similar provisions that may require a Fund to obtain a Co-GP Partner's consent prior to divesting its interest or result in the purchase or sale of a Fund's interest at a disadvantageous time or on disadvantageous terms. If a Co-GP Partner is removed from an Operating Partner JV, the ability of a Fund to exercise certain rights may require the cooperation of a successor Co-

GP Partner or other persons. A Fund will also be subject to various costs and fees relating to Operating Partner JVs and may in certain circumstances be liable for the actions of Co-GP Partners. Operating Partner JVs are not liquid assets, and a Fund may therefore experience difficulty liquidating its interest if a Fund decided it was in investors' best interest to do so.

### **Controlling Person Liability**

The Adviser will generally seek to structure investments in a manner that allows a Fund to have significant influence on the management, operations and strategic direction of the Operating Partner JVs and the Project JVs in which it invests. This exercise of control and/or significant influence could subject a Fund to additional risks of liability for failure to supervise management, environmental damage, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of entity ownership may be ignored. In this case, a Fund's assets could potentially be exposed to claims by the Operating Partner JV and/or Project JV, their security holders and/or their creditors. If any such claims were to arise, a Fund might suffer a significant loss on the related Investment.

### **Project JVs; Project LPs**

The Project JVs will engage in the acquisition and development or improvement of real estate assets sourced and/or managed by the Adviser's affiliates. Investors' returns in a Fund will be driven, in substantial part, by the promote arising in respect of a Fund's Operating Partner JV interest in the Project JVs. As a general partner interest, a Fund will be jointly and severally liable with any other Co-GP Partners for the Project JV's debts and obligations, which may be significant. Project JVs will depend on Project LPs to contribute substantial amounts of LP Equity to finance their development activities. There is a risk that Project LPs may experience financial difficulties preventing them from contributing capital to the Project JVs, may have or come to have economic or business interests or investment objectives that are inconsistent with those of the Co-GPs or may be in a position to cause to be taken or block certain major actions of the Co-GPs, resulting in a negative impact on the Project JV. Disputes that arise between Co-GPs and a Project LP could result in costly litigation and adverse reputational consequences to the Co-GPs. If Co-GPs such as a Fund and Project LPs have the ability to dispose of their interests in the Project JV separately, a disposition by a Project LP may depress the value of a Fund's interest. Further, agreements governing Project JVs may contain restrictions on the transfer of a Co-GP's interest or alternatively, may have Co-GP removal provisions that may result in a requirement that a Fund purchase its Co-GP Partner's, or sell its own, Co-GP Equity at a disadvantageous time or on disadvantageous terms. If a Fund's Co-GP Partner is removed from a Project JV, the ability of a Fund to exercise certain rights may require the cooperation of a successor Co-GP Partner, Project LPs or other persons. A Fund will also be indirectly subject to various costs and fees relating to Project JVs that can escalate quickly if development and stabilization timelines extend. Moreover, Co-GP Equity in Project JVs is not a liquid asset, and a Fund may therefore experience difficulty liquidating its interest if a Fund decided it was in the investors' best interest to do so.

### **Approval or Veto Rights of Project LPs**

Any investor providing LP Equity capital to a Project JV (including those associated with a Fund investor) may require certain approval or veto rights for material actions of the Operating Partner JV in respect of the Project JV. While the Adviser will seek to limit the rights of LP Equity investors, doing so may not be practicable in certain Project JVs, especially those with third-party LP Equity investors. In that case, the Operating Partner JV would not be able to exercise total control over the execution of the Project JV's business plan. In exercising its separate rights, an LP Equity investor could face economic incentives to act in a manner that favors its own interests, as a holder of LP Equity in the Project JV, over the economic interests of a Fund as a holder of Co-GP Equity. For example, the Project LP could block the Project JV

from obtaining additional financing to mitigate the risk of capital loss or could force a sale or the purchase of an underperforming underlying asset in order to accelerate the realization of its investment return. If an LP Equity investor that is a Fund Investor is also a member of an Advisory Committee, it could have a similar incentive to vote on Advisory Committee matters in a manner that is disadvantageous to a Fund but favors its LP Equity investment. While the conflicting economic incentives would be diluted in the case of an LP Equity investor that is also a Fund investor, they could still exist. And as a general matter, the greater a Fund Investor's LP Equity exposure with respect to a particular Project JV, and the greater the variation of the economic terms between LP Equity and Co-GP Equity, the greater a Fund investor's interests would be expected to diverge from, and give rise to an incentive to take adverse action with respect to, the other Fund investors.

### **Additional Capital Requirements; Cash Constraints**

If a Project JV requires additional capital, there may be no obligation on the part of the Project LP to provide such funds (by loan or otherwise) even if the funds are needed to pay operating deficits, to meet cash requirements, to prevent foreclosure of a mortgage encumbering one or more of the Project JV's underlying properties or for any other purpose. While AECOM will generally make Support Payments to cover non-budgeted Project JV cost overruns on behalf of both a Fund and an LP Equity Co-Invest Vehicle and provide all Project JV lender required Guarantees for Approved Investments, as further discussed in "AECOM Support Payments and Guarantees" below, it may not have such obligation to make those payments on behalf of a Fund's Co-GP Partner and for unaffiliated Project LPs, nor may Guarantees obligate AECOM to provide additional capital under particular circumstances. To the extent a Project JV has inadequate capital to meet its requirements, to the extent additional external financing is also unavailable, the Project JV's business plan could be severely disrupted and, in an extreme case, the properties owned by the Project JV could be lost as a result of a mortgage foreclosure. Such a foreclosure would result in the loss of part or all of a Fund's investment in that Project JV and adverse tax and other consequences to Investors.

### **AECOM Guarantees and Investment Approvals**

While AECOM will be required, pursuant to agreements to be entered with a Fund, to provide all Project JV lender required Guarantees for Approved Investments, doing so will be contingent upon the Project JV meeting AECOM's underwriting criteria for providing such Guarantees and an affiliate of AECOM acting as either the construction manager at risk or the owner's representative, in conjunction with the applicable project. Additionally, there may be other circumstances in which AECOM may not be in a position to provide required Guarantees, including a material adverse change in AECOM's financial condition, investments where an AECOM affiliate is not acting as construction manager or owner representative for the underlying Project JV or where a provision of a required guarantee will violate a covenant under a material agreement binding upon AECOM, including a loan agreement. Therefore, any deterioration in AECOM's financial condition or other circumstances that preclude AECOM from providing guarantees could force a Fund to forego Proposed Investments and financings, and have a material adverse effect on the successful implementation of a Fund's investment program.

### **Availability and Competition for Investments**

Investors will be relying on the Adviser's abilities with respect to the use of proceeds of this offering. The activity of sourcing, structuring, consummating and realizing attractive investments is highly competitive, involves a high degree of uncertainty and is subject in some cases to the prevailing real estate market or the regulatory or political environment. While the Adviser believes that there are currently many attractive investment opportunities available, there can be no assurance that such investments will continue to be available during a Fund's investment period, or that available investments will meet a Fund's



investment criteria. The Adviser will be competing for investments with other real estate investment vehicles, as well as individuals, publicly traded REITs, financial institutions, pension funds, real estate private equity funds and other institutional investors. In particular, over the past several years, as the commercial real estate market has strengthened and real estate fund sponsors have sought new and creative ways to complete their capital stacks, many real estate Co-GP Equity funds have been formed and grown in size. Additional Co-GP Equity funds with similar investment objectives may be formed in the future by other unrelated parties and further consolidation in the industry may occur, resulting in larger Co-GP Equity funds and investment vehicles. The Adviser may be competing for investment opportunities with entities that have substantially greater financial, personnel and other real estate-related resources, better sourcing and acquisition abilities or better relationships with Co-GP Partners or third-party Project LPs. Such competitors may also generally be able to accept more risk than a Fund prudently can accept or accept lower returns.

### **Due Diligence**

When conducting due diligence and research on potential Co-GP Partners, third-party Project LPs and investments, the Adviser may be required to evaluate significant and complex business, financial, tax, accounting, environmental, geotechnical, engineering, design, legal and political issues. Outside consultants, legal counsel, accountants, investment banks and other advisors may be involved in the research process in varying degrees depending on the nature of the investment. The due diligence investigation and research that the Adviser carries out with respect to any prospective opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such opportunity, may lead to inaccurate or incomplete conclusions or may be manipulated by negligence or misconduct. Moreover, such an investigation, no matter how exhaustive, will not necessarily result in the ensuing Investment being successful.

### **Uncertain Duration, Realization Strategies**

The Adviser may not know the maximum — or, often, even the expected — duration of any particular investment at the time of consummation. The realization strategy on which an investment is predicated may be precluded by economic, legal, political or other factors even if that strategy appeared to be viable when an investment was consummated. Moreover, a Fund's investments will generally be highly illiquid compared to other asset classes, meaning that realization of outstanding investments on a Fund's termination or otherwise could be a process of uncertain duration. In particular, investments that are Co-GP Equity in an Operating Partner JV where a Fund's stake is 50% or less may prove more difficult to realize, and the realization price for such a joint venture stake may differ materially from the fair market value of the Investment.

### **Contingent Liabilities; Returns of Distributions**

In connection with the realization or disposition of an investment, a Fund may be required to make representations about the business and financial affairs of such investment typical of those made in connection with the sale of any business, may be responsible for the content of disclosure documents under applicable securities laws and may be required to indemnify the purchasers of such investment to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities, which, if not satisfied out of a Fund's assets or operating reserves, may ultimately be required to be funded by Fund investors making capital contributions to a Fund or returning previous distributions received from a Fund. Separately, under the Delaware Revised Uniform Limited Partnership Act, an investor who has received a distribution in violation of such Act will, under certain circumstances, be obligated to return that distribution to a Fund.

### **Possibility of Fraud or Other Misconduct**

Fraud or misconduct by Co-GP Partners, third-party Project LPs or their respective affiliates, agents or employees could cause significant losses to a Fund. This may include entering into transactions without authorization, the failure to comply with operational procedures, misrepresentations in connection with development or stabilization activities or the improper use or disclosure of confidential or material non-public information, which could result in reputational damage, litigation, business disruption or financial losses to the Operating Partner JV, Project JV and ultimately, to a Fund. No assurances can be given that the Adviser will be able to identify or prevent such misconduct.

### **Appraisal Risks**

Appraisals used in connection with an investment program, including in determining whether to invest in a particular Project JV or to mark up the Project JV's assets in connection with the admission of a Project LP, represent the related appraiser's subjective analysis and opinion at the appraisal time and are not guarantees of, and may not be indicative of, present or future market values. There can be no assurance that different appraisers would not have arrived at different, and perhaps substantially different, valuations, even if those persons used the same general approach to and same method of valuation. Particularly during periods of volatility in the commercial real estate markets (whether local, regional or national), appraisals may not accurately reflect the value or condition of the relevant asset, while asset values may decline following the time an appraisal is performed.

### **Commercial Real Estate Risks**

The value of the commercial real estate underlying a Project JV will fluctuate depending on conditions in the general economy and the commercial real estate business. The factors that affect that value may include, among other things: national, regional and local economic conditions; the condition of financial markets; developments or trends in a particular sector or industry; competition from other available space; local conditions such as an oversupply of space or a reduction in demand for real estate in the area; management of properties; the development and/or redevelopment of properties; changes in market rental and occupancy rates; the timing and costs associated with property improvements and rentals; changes in operating costs; the financial condition of tenants or prospective tenants; availability of obtaining financing on acceptable terms; fluctuations in interest rates; changes in zoning laws and taxation; government regulation; potential liability under environmental or other laws or regulations; and acts of God, terrorist attacks, social unrest and civil disturbances. The returns on the investments therefore may decline as a result of adverse changes in any of these factors.

Moreover, commercial real estate assets are subject to cyclicalities and other uncertainties. The cyclicalities and leverage associated with real estate assets have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other asset classes.

### **Infill Developments**

The real estate assets developed by Project JVs will generally be situated on prime urban infill development or development sites. Infill development involves several inherent risks as compared to greenfield development. Infill development typically requires the acquisition of several small lots, sometimes without clear entitlement, to assemble one viable development or redevelopment parcel. Moreover, infill opportunities are often found in weaker and older urban neighborhoods that typically do not have the same market support as suburban locations. Strict design standards are often needed to ensure that infill development is compatible with adjacent structures, making the process of securing required

government approvals more time-consuming and burdensome. Environmental conditions and uncertainties in infill locations often result in additional costs and constraints on development. Further, elements of the existing infrastructure often require upgrades or repairs adding to total development cost. As a result of the foregoing risks, lenders typically rely on different, more stringent underwriting standards for infill developments that require more Co-GP Equity in the Project JV capital stack, reducing potential Investment returns.

### **Build-to-Core Development**

The Adviser intends to target investments in high-quality, large scale “build-to-core” developments that are typically situated on prime development or redevelopment sites that, once developed, can be stabilized into well-leased, high-income producing core investments that can be sold to institutional core buyers. These types of developments may present several additional risks versus core commercial real estate developments. Most significantly, development risk tends to be elevated owing to the modern, state-of-the-art nature of the real estate assets being developed, which often contain the latest technological advances and amenities. These types of assets also tend to experience higher volatility than core assets, which may make them more susceptible to a market downturn or correction. Moreover, some of the markets the Adviser intends to target are not considered to be suitable for new construction owing to land scarcity, zoning restrictions, high cost of living and other factors, thus inhibiting build-to-core development.

### **Project JV Focus Areas**

Project JVs will generally be focused on the top ~25 U.S. commercial real estate markets. Accordingly, a Fund will be exposed to greater economic risks than if a Fund made investments with greater geographic dispersion. A Fund will be susceptible to adverse developments in the economic and regulatory environment (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters (such as earthquakes, floods, wildfires and other events) and the consequences of climate change that occur in these areas. Any adverse developments in the economy or real estate market in any geographical focus area could adversely impact the financial condition of a Fund’s investments. No assurances are made as to the continued growth of the economy in any such area, nor are any assurances made that such area’s economy will not experience a downturn.

### **Primary Commercial Real Estate Asset Classes**

Project JVs will focus primarily on primary commercial real estate asset classes (*e.g.*, mid- and high-rise multifamily, hospitality, retail, office, mixed-use and select condominium assets), although they may also engage in development of other commercial real estate assets (*e.g.*, industrial, self-storage, student housing and senior housing assets). The performance of each of the primary asset classes is subject to many of the risks associated with owning and operating other types of commercial real estate as well as risks unique to the relative real estate sector, exposing a Fund to greater economic risks than if its investments had greater diversification of underlying asset classes. For example, a large number of special factors may adversely affect the successful development and value of a multifamily property, including the physical attributes of the building, location, services or amenities, reputation, the level of prevailing mortgage interest rates, the presence of competing properties and the tenant mix. The value of hospitality properties may be adversely affected by specific operational risks common to the hotel and leisure industry, including competition for guests and meetings from other properties, increases in operating costs due to inflation and other factors that may not be offset by increased room rates, dependence on demand from business and leisure travelers, increases in energy costs, airline fares and other travel-related expenses, terrorism alerts and warnings, military actions and epidemics, changes in travel and vacation patterns and economic conditions. The value of retail properties may be adversely affected by unique risks including local

competition, technological disruption and change, shifting consumer trends and preferences and changes in local regulations. The value of office properties is subject to special risks including tenant quality, reduced demand because of a decline in a particular business segment, building design and access and property location. The development and value of condominium properties are subject to specific risks including local supply and demand, pricing volatility, construction defects and changing demographic patterns. Finally, the development and value of mixed-use commercial real estate assets are generally subject to the risks inherent in each of their component properties, along with other specific risks, including difficulty of obtaining financing, construction complications, parking availability, public safety concerns and security issues.

### **Real Estate Acquisitions**

Real estate acquisition activities are subject to many risks. Project JVs may acquire properties through foreclosure or similar proceedings, which properties are subject to liabilities or have problems relating to state of title, environmental and geotechnical condition, physical condition or compliance with zoning laws, building codes or other legal requirements. In each case, the acquisition of real estate may be without any recourse, or with only limited recourse, with respect to unknown liabilities or conditions. As a result, if any liability were asserted against the Project JV relating to those properties, or if any adverse condition existed with respect to the properties, the Project JV might have to pay substantial sums to settle or cure it, which could adversely affect its cash flow and operating results.

### **Commercial Real Estate Development**

Project JVs will engage in commercial real estate development activities through the acquisition of undeveloped land or underdeveloped real property, real estate developments or redevelopments and/or properties requiring renovation or deferred maintenance. Development is a highly capital intensive activity that involves a variety of risks, including those relating to the availability and timely receipt of regulatory approvals, the cost and timely completion of construction, which may be beyond the Project JV's control as a result of weather, labor conditions or material shortages, lease-up velocity and rent levels and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays and expenses and could prevent completion (or timely completion) of development, any of which could have an adverse effect on the Project JV's cash flow and operating results. Properties under development or properties acquired to be developed generally generate no revenue while under development and experience operating deficits for a period after completion of development while they are being stabilized. Project JVs may commence development or redevelopment activities prior to obtaining financing for such activities, and there is no guarantee that financing will be available on favorable terms or at all. The inability to obtain financing could compromise the viability of a Project JV's business plan.

### **Avoidance or Fraudulent Conveyance**

The sale and purchase of real property or trust beneficiary interests in real property can be cancelled or avoided by a trustee in bankruptcy, corporate reorganization, civil rehabilitation or similar procedure or by the seller's creditors. Even if the fair market value was used to establish the purchase price in the transaction, the transaction may be cancelled under certain circumstances—for example, if the seller intended to conceal, donate or otherwise dispose of the sale proceeds in a manner that would harm the seller's creditors, and the purchaser knew of such intention at the time of the transaction. Under certain circumstances, payments received by a Project JV may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

## **Reliance on Service Providers**

Project JVs will rely extensively on third-party service providers in connection with the acquisition, development, stabilization and realization of commercial real estate, including construction companies, equipment suppliers, consultants, architects, engineers, designers, project managers, property managers, appraisers, brokers, vendors, financial institutions and insurance companies. ACRE's affiliates (including ACAP) may provide a variety of services to Project JVs. If any of these service providers fails to perform its services competently, effectively and up to prevailing industry standards, disputes could arise, required government approvals could be delayed and the Project JV's operations could be severely disrupted. Any such failures could, in turn, cause a Fund to experience significant losses. Disputes involving services provided by ACRE's affiliates (*e.g.*, AECOM Tishman and AECOM Hunt) could have especially deleterious effects on a Fund that could compromise the successful implementation of a Fund's investment program.

## **Reports and Surveys**

Project JVs will receive engineering reports and environmental and geotechnical surveys with respect to their underlying properties. The reports will make observations about the properties. There can be no assurance that the reports will reveal the full extent of development or repairs required or that the costs thereof, which the Project JVs will have to bear, will not exceed allotted funds.

## **Project JV Leverage; Construction Loans**

As is typical of commercial real estate development, Project JVs will rely on substantial amounts of borrowing in order to finance their development activities. In such arrangements, third-party lenders will have a priority security interest in the cash flow generated by the Project JVs prior to the Co-GPs receiving asset-level fees, development fees and/or a promote or incentive fee. Conditions in the debt financing markets may negatively affect the ability of Project JVs to obtain attractive financing and may increase the cost of such financing if it is obtained, leading to lower-yielding investments and potentially reducing investment returns. Project JVs may not be able to obtain the required leverage to purchase, develop, renovate, stabilize or refinance properties. In some recent periods the availability of real estate financing has been curtailed and the interest cost has increased substantially.

In particular, Project JVs will often rely on financing in the form of construction loans (or other forms of interim financing). These loans generally involve a higher degree of risk than other types of financing due to a variety of factors, including generally larger loan balances, the dependency on successful completion of a development, the dependency upon the successful operation of the development (such as achieving satisfactory occupancy and rental rates) for repayment, the difficulties in estimating construction costs and loan terms that often do not require full amortization of the loan over its term but, instead, provide for a balloon payment at stated maturity. If Project JVs experience difficulty refinancing construction loans, their development timelines could extend, significantly delaying the ultimate realization of the investment.

## **Stabilization Activity**

The economic feasibility and ultimate success of Project JV real estate developments will be driven in large part upon units being stabilized following the completion of construction through sales or leasing activities. Stabilized properties tend to have the least risk and are highly desired as core assets by institutional buyers. However, there can be no assurance that income or occupancy will meet or exceed the levels demanded by such buyers. Income and occupancy may be affected by a number of factors, including without limitation, crime and other neighborhood factors, the physical condition of the developed real estate, the economic environment, as well as competition from new or existing real estate. If a Project JV's

asset is not considered stabilized, it may lose a significant portion of its potential value, which may materially affect a Fund's realization strategy for the related Investment and adversely affect a Fund's returns.

### **Government Regulation and Reform**

Government authorities at all levels are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions, environmental protection and safety and other matters affecting the ownership, development and use of real property. Project JV development and stabilization activities may require the approval of governmental authorities and, in some cases, consent of third parties. There can be no assurance that any such approvals and consents will be obtained on a timely basis, if at all. Similarly, regulations may be promulgated that could have the effect of restricting or curtailing certain usages of existing structures, or requiring that such structures be renovated or altered in some manner. The need to obtain such approvals and consents and otherwise to comply with regulatory requirements could have the effect of increasing the expenses, and lowering the income, of a Project JV.

In addition to the foregoing, certain industry segments in which a Fund intends to invest, are (or may become) (a) highly regulated at both the U.S. federal and state levels and (b) subject to frequent regulatory change. The laws and regulations relating to certain industries, are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements, could have a material adverse effect on the operations and/or financial performance of a Fund or any Project JV in which a Fund invests.

### **Sale-Leaseback Transactions**

Project JVs may enter into sale-leaseback transactions, whereby properties that are purchased are leased back to the sellers of such properties. A transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect the Project JV from a business and financial perspective. If the sale-leaseback were re-characterized as a financing, the Project JV might not be considered the owner of the property, and as a result, would have the status of a creditor in relation to the tenant. In that event, the Project JV would no longer have the right to sell or encumber its ownership interest in the property. Instead, the Project JV would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance under the lease. If confirmed by the bankruptcy court, the Project JV could be bound by the new terms, and prevented from foreclosing its lien on the property. If the sale-leaseback were re-characterized as a joint venture, the Project JV and its lessee could be treated as co-venturers with respect to the property. As a result, the Project JV could be held liable, under some circumstances, for debts incurred by the lessee relating to the property. Either of these outcomes could adversely affect the Project JV's cash flow and the amount available for payment of the general partner promote.

In the event that any sale-leaseback transaction is challenged and re-characterized as a financing transaction or a loan for United States federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed.

### **Insurance Availability**

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, that may be uninsurable or not economically insurable. Inflation,

changes in building codes and ordinances (including those related to “green” certifications), environmental considerations and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received might not be adequate to restore a Project JV’s economic position with respect to the affected property. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property.

### **Environmental Laws**

There may be environmental problems associated with commercial real estate. If environmental contamination exists on a property owned by a Project JV, the Project JV could become subject to strict liability for the contamination. The presence of hazardous substances on a property may adversely affect the Project JV’s ability to sell the property. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with these materials. Such environmental liability exposure associated with a Project JV’s properties could materially and adversely affect a Fund’s performance.

### **Property Defects**

Properties acquired by Project JVs may have design, construction or other defects or problems that require unforeseen capital expenditures, special repair or maintenance expenses or the payment of damages to third parties. Structural, seismic and other reports on which Co-GPs relied as part of their pre-acquisition due diligence investigations of these properties may be inaccurate or deficient, at least in part because defects may be difficult or impossible to ascertain. Statutory or contractual representations and warranties made by various sellers of properties a Project JV acquires may not provide protection from liabilities arising from property defects. Furthermore, even after selling a property a Project JV may continue to owe a statutory warranty obligation to the purchaser if any latent defects in such property are subsequently discovered.

### **Property Leases**

Project JVs may acquire real estate assets that are currently under lease to tenants. The financial failure of, or other default by, tenants under these leases is likely to cause a significant, if not complete, reduction in the operating cash flow generated by the property and might decrease the value of that property substantially. The success of these types of investments will therefore be materially dependent on the financial stability of the tenants on the leases. Upon the expiration or other termination of the leases that are currently in place, Project JVs may not be able to re-lease the vacant property at a comparable lease rate, or at all, or without incurring additional expenditures in connection with the re-leasing. In certain cases, Project JVs may bundle leases to a portfolio of properties together under a single master lease, which may include non-monetary cross default provisions. While the use of this type of structure may reduce the risks associated with the financial failure of a single property or tenant, it may create greater risk if a tenant’s attempt to reject such a lease benefits other similarly situated tenants.

### **Ground Leases**

Certain properties acquired by Project JVs may be subject to ground leases, where third-party owners hold the fee interest in those properties. In these cases, the Project JV’s interest in the property will be subordinate to that of the fee owner, and potentially also to interests held by third parties, such as

mortgages or other liens (*e.g.*, mechanic's liens). A default, bankruptcy or insolvency by the fee owner could result in the termination or impairment of the Project JV's interest if the fee owner (or its bankruptcy trustee) rejects or disaffirms the lease (with the approval of the current tenants) or seeks to sell the property free and clear of the ground lease.

### **Purchase Rights**

In some circumstances, Co-GPs may cause Project JVs to grant the tenant of a property under lease the right to repurchase that property or the Project JV may acquire an interest in that property subject to a right of repurchase. In either case, the purchase price may be a predetermined fixed price or based on the market value at the time of exercise, or it may be based on an agreed-upon formula. If the tenant exercises its right to purchase the property at a particular price and the property's market value has increased beyond that price, the Project JV could be limited in fully realizing the appreciation on that property. Similarly, Co-GPs may grant a Project LP the right to purchase assets under development upon stabilization pursuant to terms agreed at the admission of the Project LP or the organization of the related LP Equity Co-Invest Vehicle, as the case may be. If the third-party Project LP or LP Co-Investors (defined below) exercise this right at a price below the current market value of the property, the Project JV could also be limited in fully realizing the appreciation on the property. Such purchase rights may be granted as an inducement to secure LP Equity participation in a Project JV and/or to provide the Project JV with certainty with respect to its asset realization strategy.

### **Reputation in Community**

The reputation of real estate in the surrounding community will be an important factor in whether the associated Project JV will be able to generate sufficient revenues to pay debt service and provide a return on its investment. Reputations can in some cases be based on incorrect information, so that even if the development exceeds expectations in all other respects, it may still fail as a consequence of an unjustified negative reputation. In particular, Project JVs that engage in development in gentrifying neighborhoods may be subject to negative publicity regarding the local impact of the development.

### **Eminent Domain**

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain real estate assets owned by Project JVs through eminent domain proceedings. While the related Co-GPs may seek to contest these proceedings, doing so may be costly and may divert those partners' attention from the underlying development, and there can nevertheless be no assurance that a municipality or other government subdivision will not succeed in acquiring such real estate assets. In such event, there is a risk that the Project JV will not receive adequate compensation for the assets acquired, or that it will be reimbursed for all charges associated with the divestiture of those assets.

### **Mold**

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to radon, airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. The presence of significant mold at any of a Project JV's properties could require a costly remediation program to contain or remove the mold from the affected property. In addition, the presence



of significant mold could expose the Project JV to liability from purchasers, tenants and others if property damage or health concerns arise.

### **Public Accommodations**

Under the Americans with Disabilities Act of 1990 (the “ADA”), all public accommodations in the U.S. must meet U.S. federal requirements related to access and use by disabled persons. If a Project JV’s property does not comply with the ADA, then the Project JV may be required to incur costs to bring the property into compliance, which may or may not have been foreseen at the time of acquisition. Future changes to U.S. federal, state and local laws also may require modifications to properties, or restrict developers’ ability to renovate properties. Project JVs cannot predict the ultimate cost of compliance with the ADA or other similar legislation, but those costs may be substantial.

### **Casualty or Condemnation**

A fire or other major casualty could destroy real estate. Even if it were practicable to restore the damage caused by a major casualty, the development or stabilization activities of an affected Project JV would likely be suspended for a considerable period of time. While Project JVs will secure insurance protection for their underlying real estate, in the event of any substantial loss, disputes over insurance claims could arise. Moreover, there are certain types of losses that are either not insurable or not economically insurable. If such a casualty or condemnation occurs, a Project JV could lose its entire investment, and other liabilities (including tax liabilities) could also result.

### **Terrorism**

In the current environment, there is a risk that one or more of a Project JV’s real estate assets will be directly or indirectly affected by terrorist attack. Such an attack could have a variety of adverse consequences for the Project JV, including risks and costs related to the destruction of property, inability to engage in development or stabilization activities for an extended period, decline in rents or sale prices achievable or property value and injury or loss of life, as well as related litigation. As discussed above, such risks may not be insurable or may be insurable at rates that the Project JV’s Co-GPs deem uneconomic. So long as Project JVs follow typical industry practices in protecting their underlying assets, recourse to them in the event of losses may be limited and such losses may be borne by the Co-GPs including a Fund.

### **Property Taxes**

Real property owned by Project JVs will likely be subject to real property taxes. Such taxes may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. An increase in property taxes on a Project JV’s real property could adversely affect its results from operations and could decrease the value of that real property.

### **Project JV Litigation**

The acquisition, development, stabilization and sale of real properties by Project JVs carry certain litigation risks, which could result in losses to a Fund. Litigation may be commenced with respect to a property acquired by a Project JV in relation to activities that took place prior to the Project JV’s acquisition of such property. In addition, at the time of sale of a property, a potential buyer (including a Project LP) may claim that it should have been afforded the opportunity to purchase the asset, potentially pursuant to a purchase right granted by the Project JV, or alternatively that such buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosures made by the Project JV, if such buyer is passed over in favor of another as part of the Project JV’s efforts to maximize sale

proceeds. Similarly, successful buyers may later sue the Project JV or the related Operating Partner JV under various damage theories, including those sounding in tort, for losses associated with latent construction defects or other problems not uncovered in due diligence. Project JVs may also be exposed to litigation resulting from the activities of tenants of the underlying properties or their customers.

### **Pandemic**

The recent Coronavirus (“COVID-19”) outbreak has been declared a pandemic by the World Health Organization and is spreading globally. The outbreak of COVID-19 continues to grow, and related government and private sector responsive actions may adversely affect the value and performance of certain investments. The extent to which COVID-19 impacts such investments will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact.

### **Discontinuation of LIBOR**

It is expected that the London Interbank Offered Rate (“LIBOR”), which is commonly used as a reference rate within various financial contracts (any such rate, a “Reference Rate”), will not be published after the year 2021. In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which a Fund is a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including the Funds and their counterparties.

With respect to financial contracts to which a Fund is a party, including with respect to corporate bonds and loans, consumer loans, real estate loans, floating rate debt and loans, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond 2021 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume resources of the Fund and may result in disputes among counterparties, the result of which may be adverse to the Fund. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which the Fund is a party may adversely affect its performance.

### **Certain Conflicts of Interest**

The Adviser and/or a Fund will be subject to various actual or potential conflicts of interest. These conflicts will arise out of the Sponsors’ relationship to each other, with a Fund, with the Sponsors’ other business activities, and with the provision of services by the Sponsors and their affiliates to a Fund and a Fund’s affiliates and the nature of a Fund’s investments. Further, agreements and arrangements, including those relating to compensation, between a Fund and the Adviser and its affiliates are not and will not be the result of arms’ length negotiations.

### **ACRE and CPRE Relationship; Management Deadlocks**

A Fund will be controlled and managed by the Adviser which is jointly owned and controlled by ACRE and CPRE. Although ACRE and CPRE expect to work together cooperatively in managing a Fund, and each has a financial interest in a Fund’s success, there can be no assurance that they will not have

interests that conflict with one another and/or with those of a Fund or the investors. Such conflicts may arise from the Sponsors' relative compensatory and profit-sharing arrangements with respect to a Fund through their ownership of the Adviser, relative equity ownership of a Fund, involvement in Project JVs, agreements regarding the sponsorship and management of future investment vehicles, income tax classifications, other business relationships and activities unrelated to a Fund and/or other commercial or financial interests. In particular, ACRE and CPRE are each a part of a large, global organization with multiple lines of business unrelated to a Fund. Any of these factors could create an incentive for a Sponsor to act in a manner that favors its own interests over that of a Fund or Fund investors in connection with the operation of the Adviser, or could spur disagreements that result in conflicts, deadlocks or other decision-making failures. While the Adviser has implemented policies and procedures intended to facilitate dispute resolution since all material decisions related to investments require consensus among the Sponsors' designated representatives, there is no assurance that they will be successful in all cases, as they may not overcome the actual or perceived differences in the net benefits realized by the Sponsors from their participation in a Fund. Ultimately, any such conflicts could undermine and potentially compromise the continued viability of a Fund's investment strategy and materially and adversely affect a Fund's returns. There can be no assurance that the Sponsors' interests will remain aligned at all times during a Fund's term and that they will have incentives to work cooperatively towards the success of a Fund's investment program.

#### **Allocation of Time and Resources; Other Business Activities and Ventures**

Except as specifically noted in a Fund's offering documents, the Sponsors and any of their respective affiliates (each an "Adviser Party" and together, the "Adviser Parties") will not be restricted from engaging in other business activities and ventures, including investing for their own account, forming, marketing and managing other pooled investment vehicles or client accounts or engaging in other investment-related activities, and will generally receive compensation and/or an interest in any profits in connection with respect to any of the foregoing. In particular, the Adviser Parties are and will continue to be general partners or managing members of other entities which have invested, or have been formed to invest, directly or indirectly, in commercial real estate assets. Neither a Fund nor any investor will have any right to participate in any manner in any profits or income earned or derived by any Adviser Parties from or in connection with the conduct of any such other business activity or venture. Except as noted above, such ventures may be competitive with a Fund or the Project JVs in which a Fund invests.

Moreover, the Adviser Parties expect to form additional real estate investment funds or other investment entities, some or all of which may have investment objectives that are similar to those of other existing Funds. The Adviser Parties may devote a substantial portion of their time and resources to the launch and management of these entities. If an Adviser Party is presented with an investment opportunity that would be appropriate for one Fund but might also be appropriate for, and can permissibly be allocated to, another Fund or managed account, the Adviser may be subject to conflicts of interest in selecting an investment entity to invest in such opportunity, as the compensation to be received by the Adviser Party as a result of its sponsorship or management of other investment entities may be greater than the aggregate compensation from another Fund. The decision as to whether one Fund or another Fund would participate in such an investment would be made by the Adviser Party after a review of the portfolio of each such entity at the time of investment, on the basis of such factors as the investment objectives and criteria of each such entity, the investment size, capacity constraints, the effect of such an investment upon the diversification of the portfolio of each possible investing entity and the length of time each such entity has had funds available for investment. While generally one Fund must be substantially invested before investments can be allocated away from such Fund, there is still a possibility that other entities compete with such Fund for attractive investment opportunities and that a Fund does not participate in otherwise suitable investments that arise during the investment period, to investors' detriment. There can be no assurance that investors

in a Fund will be offered the opportunity to participate in any other entities formed by Adviser Parties, including those that invest in Co-GP Equity.

In addition to the foregoing activities, the Adviser Parties will also be involved in the sponsorship and management of LP Equity Co-Invest Vehicles and/or Co-GP Equity co-investment vehicles, as described below. While these vehicles will not necessarily be competitive with a Fund, they will nonetheless require management time, services and functions to be allocated between a Fund and such vehicles, thus giving rise to potential conflicts.

### **Compensation Structure**

Because the Adviser will receive a management fee and carried interest, either directly or indirectly, distributions from a Fund, respectively, the Adviser has a conflict of interest between its responsibility to manage a Fund for the benefit of investors and its interest in maximizing the fees and distributions received. The management fee is payable regardless of the performance of a Fund's investments, which may create an incentive for the Adviser to maximize the capital raised and deployed by a Fund.

The carried interest potentially payable to the Adviser may create an incentive for the Adviser to pursue riskier or more aggressive investments than might be the case in the absence of such performance-based distribution structure. If a Fund performs poorly, this may create an incentive for the Adviser to devote resources to other clients or accounts from which it has better prospects for earning performance-based compensation.

As distributions and carried interest will be determined only upon investment dispositions or other realization events, distributions may be affected by the timing and structure of such realization and other factors within the control of the Adviser. Subject to the Adviser's fiduciary duties, under certain circumstances, it may be in the economic interest of the Adviser to realize an investment while the same may not be in the economic interest of all investors. For example, changes to the Internal Revenue Code enacted in the Tax Cuts and Jobs Act (the "TCJ Act") could encourage the Adviser, or an affiliate of the Adviser, to cause a Fund to hold investments for longer than it otherwise would. Specifically, under the TCJ Act, to the extent income allocated in respect of any carried interest includes realized gains, those gains will be eligible for long-term capital gains treatment by one of the Sponsors (and subject to tax at a lower rate) only to the extent a Fund held the relevant assets for at least three years. Differences in the tax treatment of the carried interest for each Sponsor could therefore make it in the economic interest of one Sponsor to realize an Investment while the same may not be in the economic interest of the other Sponsor. This could lead to Investment Committee deadlock as related to such investment, which would trigger the Adviser's deadlock resolution procedures, which are available upon request.

Separately, although carried interest distributions will be subject to a clawback at the end of a Fund's term, the clawback amount may not be sufficient to cause investors to receive a return of all of their capital contributions and the applicable preferred return thereon.

### **AECOM Fees**

The Adviser expects that AECOM and/or its affiliates will be retained by Operating Partner JVs and/or Project JVs from time to time and entitled to fees and other compensation for providing construction, construction management, design, engineering, consulting, operations and maintenance or other similar services (collectively, "AECOM Fees"). Without limitation, the Adviser anticipates that AECOM and its affiliates will perform construction management services, development management services and design and consulting services, and in each case receive compensation in respect of investments. AECOM (or its affiliate) will serve as either construction manager at risk or as owner's representative for each Fund

investment, and it (or such affiliate) will receive AECOM Fees in connection with such role. Other types of services may be provided and/or fees outside the ranges contemplated in a Fund's governing documents may be charged with advisory committee approval.

While it is expected that the rates and terms of the arrangements with affiliated service providers will generally be consistent with rates and terms that would be agreed on an arms' length basis for the provision of similar services to third parties by the applicable affiliated service providers, fees paid to AECOM and/or its affiliates will detract from a Fund's returns and potentially create an incentive for ACRE to recommend Investment Committee approval of an investment where AECOM and/or its affiliates stand to receive such fees. Except for that portion (50%) of any AECOM Development Fees applied to offset the management fee, no other AECOM Fees—that is, fees received for providing any services *other than* development management, such as construction services performed by AECOM Tishman or AECOM Hunt, or other services provided by AECOM Design & Consulting Services—will be shared with a Fund or investors, be applied to reduce the management fee or carried interest payable in respect of a Fund or be required to be contributed to a Fund by ACRE.

Nonetheless, the Adviser considers these arrangements to be appropriate because AECOM Fees are attributable to discrete services being provided by AECOM and/or its affiliates that would otherwise be provided by third parties, at rates negotiated by the Co-GP Partners and approved by the Investment Committee, and they provide distinct advantages to a Fund versus non-affiliated service providers that will help a Fund implement its investment program. These advantages include alignment of ACRE's financial interests with those of investors, the experience and reliability of ACRE's affiliated service providers, high-level operational and strategic control by a Fund over its service providers, ability to establish common operating processes across investments and long-term loyalty and attention to a Fund's investments. The payment of AECOM Fees in connection with a Proposed Investment will be disclosed in the related Investment Committee memorandum and must therefore be approved by the Investment Committee in connection with the approval of an investment, thus requiring the approval of CPRE. If, on the other hand, AECOM and/or its affiliates do not provide services in connection with an investment, a Fund will rely on third-party service providers, whose fees may be higher or lower than AECOM Fees for equivalent services, and the use of which would not offer the advantages noted above. By investing in a Fund, each investor will be consenting to the payment of AECOM Fees.

### **AECOM Support Payments and Guarantees**

Any ACRE Investment Committee member may, when voting to approve or disapprove any matter, take into account the interests of ACRE or its other affiliates in connection with the related investment. Those interests may conflict with those of a Fund and the investors. In particular, in considering a Potential Investment, an ACRE Investment Committee member may consider Project JV-level Support Payments and lender required Guarantees that AECOM will generally be required to provide if their investment is approved. If such Investment does not meet AECOM's underwriting criteria or AECOM is otherwise unable to provide a Guarantee or Support Payments, both discussed above, it is expected that the ACRE Investment Committee member would vote down the investment and the investment would not be approved. While the Adviser deems such consideration of AECOM's interests to be appropriate under the circumstances, a Fund could be required to forego potentially attractive and appropriate investments as a result.

For those investments that are approved, AECOM's recovery rights with respect to Guarantee payments and rights to reimbursement for Support Payments could create incentives for AECOM to take actions contrary to the interests of investors in a Fund. The Adviser nevertheless believes that AECOM's Guarantees and Support Payments will provide valuable benefits to a Fund. Among other things, AECOM's obligations to make Support Payments should substantially reduce the risk of loan defaults that

could disrupt the completion or stabilization of Project JVs and adversely affect a Fund. AECOM's Guarantees should also help Project JVs secure financing on competitive terms.

### **Expense Allocation**

Each Fund is responsible for all costs and expenses in connection with its operation, *other than* the costs and expenses that will be the responsibility of the Adviser, the Sponsors or other third parties. A conflict of interest could therefore arise in the Adviser's determination of whether certain costs or expenses that are incurred in connection with the operation of a Fund meet the definition of a "fund expense" for which a Fund is responsible, or whether such expense(s) should be borne by the Adviser, the Sponsors or other third parties. Each Fund will be reliant on the determinations of the Adviser in this regard, and also in regard to the allocation of investment expenses and any common operating expenses among a Fund and any other clients or accounts managed, advised or sponsored by the Adviser Parties, including LP Equity Co-Invest Vehicles, Co-GP Equity co-Investment Vehicles and Fund Co-GP SPEs.

### **Investments in Project JVs and Operating Partner JVs; Co-investment with Related Parties**

Neither the Adviser nor its affiliates or related persons (including the Sponsors) are precluded from entering into transactions with Operating Partner JVs or Project JVs, forming other investment vehicles to make non-Co-GP Equity investments through Operating Partner JVs and Project JVs or causing their clients or accounts to co-invest in Operating Partner JVs and Project JVs with a Fund. As a result, a Fund may from time to time invest in Project JVs that are capitalized or financed by other entities that are managed or sponsored by, or affiliates of, the Adviser. In addition, a Fund may acquire interests in Operating Partner JVs and Project JVs in which other clients of the Adviser or its affiliates are also lenders or investors, as applicable, either in a similarly situated position (*e.g.*, holders of Co-GP Equity) or in different positions in the capital stack with different risk and return profiles (*e.g.*, holders of LP Equity, preferred equity or debt). Alternatively, a Fund may co-invest in certain Operating Partner JVs and Project JVs with Funds or Clients managed or sponsored by the Adviser or its affiliates. All of these arrangements could create conflicts and disputes between a Fund and the related investors regarding the terms of the Operating Partner JVs and Project JVs, as applicable, and the enforcement of the entities' respective rights therein. Differences in entity size, capital availability, compensation arrangements, investment objectives, risk tolerance, investment restrictions, holding periods or tax treatment could influence the decisions the Adviser or its affiliates make with respect to their clients' interests in the Operating Partner JVs and Project JVs. In some cases, the Adviser may have an incentive to recommend that the Investment Committee take action with respect to an investment that it would not otherwise recommend but for other clients' interests (including clients of the Sponsors). Such actions could disadvantage one Fund by favoring other Clients over such Fund or attempting to maximize the value received across all of the Adviser's and its affiliates' clients rather than solely to such Fund. The foregoing conflicts of interest are particularly acute where Fund investors are also LP Co-Investors through LP Equity Co-Invest Vehicles managed and sponsored by the Adviser, as described in greater detail below.

### **LP Equity Co-Investments**

Where practicable, the Adviser will seek to make arrangements with Co-GP Partners in particular Project JVs to offer certain Fund investors (as determined in the Adviser's sole discretion) the opportunity to make LP Equity investments in those Project JVs ("Co-Investments"). Co-investments will be made through special purpose vehicles (each, an "LP Equity Co-Invest Vehicle") through which eligible and electing Fund investors ("LP Co-Investors") will provide LP Equity to particular Project JVs.

LP Equity Co-Invest Vehicles will own a different security and therefore will have different economic interests than a Fund does in respect of the Project JVs in which each invests. While the Adviser

generally intends to cause a Fund and an LP Equity Co-Invest Vehicle to provide capital to a specific Project JV on a *pari passu* basis, based on sharing ratios determined by the Adviser, such that they both share in the Project JV's profit and loss, LP Equity Co-Investment Vehicles will not share in the Project JV's Co-GP promote or any other preferential Co-GP economics, which may include asset-level fees such as pre-development fees, asset management fees and/or leasing fees. LP Equity Co-Investment Vehicles will, however, pay the Adviser ongoing asset-based management fees (but not any carried interest on profits thereof).

While the Adviser believes that LP Equity Co-Investments will generally provide benefits to a Fund by making capital that is readily accessible available to each Project JV, Fund investors should be aware that a Fund and any LP Equity Co-Invest Vehicles will hold securities with differing economic terms, and that the Adviser's duties to a Fund and its duties to the LP Equity Co-Invest Vehicles, as well as its economic incentives for managing a Fund and the LP Equity Co-Invest Vehicles, may conflict in a number of ways.

In particular, the fact that the Adviser will be entitled to asset-based management fees from LP Equity Co-Invest Vehicles could create incentives for the Adviser to "sweeten the deal" for LP Co-Investors in ways that could be detrimental to a Fund (despite any contrary interests of the Co-GP Partner) in order to ensure an LP Equity Co-Invest Vehicle achieves its fundraising target and to maximize the overall fee revenues arising from a Fund and such LP Equity Co-Invest Vehicle to the Adviser and its affiliates. As an example, a Fund together with its Co-GP Partner for a particular Project JV, may make investments (whether to acquire the land or other assets to be developed by the Project JV, or for other purposes) prior to the admission of a Project LP to the Project JV. When this happens, the Project LP will be required to "buy in" to the Project JV by contributing LP Equity capital on terms determined by a Fund and the Co-GP Partner. The terms of these "buy-ins" may include interest-like payments to compensate a Fund and the Co-GP Partner for the use of their capital and/or "true up" payments to reflect (generally unrealized) appreciation in land values or other assets of the Project JV. When the Project LP is an LP Equity Co-Invest Vehicle, the Adviser's interest in maximizing the terms of any "buy-in" by the LP Equity Co-Invest Vehicle for the benefit of a Fund will conflict with its interest in attracting LP Co-Investors to provide LP Equity to the Project JV (which will entitle the Adviser to management fees from the LP Equity Co-Invest Vehicle that will not be shared with a Fund or a Fund's Co-GP Partner).

Furthermore, the interests of an LP Equity Co-Invest Vehicle and a Fund may diverge during the lifespan of an investment, causing the Adviser to make decisions that benefit the LP Equity Co-Invest Vehicle or the Adviser's interest in that vehicle and a Fund as a whole over the interests of a Fund and a Fund's investors. For example, where certain return thresholds are not anticipated to be achieved, thus reducing the possibility that a Fund will earn a promote or incentive fee from the underlying Project JV, the Adviser may be inclined to pursue a more conservative asset management strategy to minimize downside risk to the benefit of the LP Equity Co-Invest Vehicle, as compared to a more aggressive strategy that could generate higher returns for a Fund but with greater downside risk. These actions could give rise to disputes with a Fund's Co-GP Partner in the Project JV, which may favor the more aggressive strategy as its interest is limited to the Operating Partner JV. If these disputes are not resolved amicably, they could result in litigation, the cost of which would generally be borne by a Fund; damage a Fund's relationship with the Co-GP Partner causing such Fund to lose future potential attractive investments introduced by that Co-GP Partner; or inflict other reputational damage to a Fund and the Adviser in the commercial real estate marketplace generally that adversely affects the implementation of a Fund's investment program.

By investing in a Fund, each such investor will be consenting to the Adviser's sponsorship and management of LP Equity Co-Invest Vehicles through which Fund investors collectively co-invest in LP Equity, notwithstanding the conflicts inherent in these arrangements as described herein.

## **Co-GP Equity Co-Investments**

Where appropriate, the Adviser may provide opportunities for Fund investors to make co-investments in Co-GP Equity alongside a Fund. The Adviser will generally undertake no obligation to offer Co-GP Equity co-investment opportunities to investors, and, to the extent it does, will do so in such allocations and on such terms as the Adviser determines in its sole discretion.

While the Adviser believes that there are benefits of having investors as Co-GP Equity co-investors, as they already have an interest in a Fund and can provide the capital required to facilitate the completion of investments, potential conflicts may nonetheless be inherent in, or arise from, the Adviser's discretion in providing such co-investment opportunities to certain investors.

In particular, the availability of co-investment capital may cause a Fund to make certain investments that would not be made if such capital were not available. The Adviser may pursue certain investments based on the internal investment policies of potential co-investors. The Adviser may reduce a Fund's allocation to certain investments to increase the allocation available to Co-GP Equity co-investors and/or to increase the Adviser's overall compensation. Alternatively, the Adviser may increase a Fund's exposure to an investment to the extent co-investment capital is not available in order to allow for the investment to be consummated, causing a Fund to bear additional expenses and reducing the diversification of a Fund's portfolio.

Additionally, investors participating in Co-GP Equity co-investments may invest in investments directly or, similar to LP Equity investment opportunities, through aggregation vehicles sponsored and managed by the Adviser. The fees, other compensation and terms of any investment in such aggregation vehicles may differ from the fees, other compensation or terms of an investment in a Fund—importantly, such vehicles may not pay any management fees or carried interest. Co-investors in a particular investment may also have certain control rights a Fund investor does not have and may not have the same economic interests or objectives as a Fund. Among other things, Co-GP Equity co-investors may have the ability to liquidate their interest in an investment at a different time or times, and/or in different amounts than a Fund. They may also take other actions that make it more difficult for a Fund to realize the value of the investment or that adversely affect the Investment.

Separately, a Fund will bear all (or its *pro rata* share of) the fees, costs and expenses associated with any Co-GP Equity co-investment that is not consummated (a "broken deal") arising prior to an investor's contractual commitment to participate in such investment. Once an investor is so committed to participate, the investor will be required, as a condition of its participation, to bear all such costs or, to the extent doing so is not reasonable and practicable under the circumstances, such costs will be borne exclusively by the Adviser (and not, for the avoidance of doubt, by a Fund or the other investors). Nevertheless, investors should be aware that under certain circumstances, a Fund may bear more than its *pro rata* share of broken deal expenses. The Adviser believes this is reasonable because (a) the amount of broken deal expenses associated with an investment is expected to be the same, or substantially similar, regardless of whether co-investors are contractually committed to participate in such investment and (b) broken deal expenses are often incurred prior to the date on which co-investors are contractually committed to participate in such investment and thus obligated to bear those expenses.

## **Business Transactions by the Manager and Affiliates**

The Adviser or its affiliates may engage in business transactions with Co-GP Partners, third-party Project LPs and other third parties that do business with or provide services to a Fund as well as in connection with the Adviser's or its affiliates' other business activities and ventures. The business dealings between a Fund and those third parties will be on what the Adviser believes to be an arms' length basis, but



the Adviser will not generally give other service providers an opportunity to bid to provide services to a Fund on a competitive basis. Therefore, it is possible that a Fund will pay more (or less) than current market rates or those rates paid by other investment vehicles or accounts managed or sponsored by the Adviser or its affiliates for certain services provided by third parties.

***The foregoing discussion of certain risk factors, including certain conflicts of interest, does not purport to be a complete explanation of the risks involved with investing with AECOM-Canyon. Clients and Fund investors should read all documents and agreements related to opening an account or investing in a Fund (including a Fund's offering memorandum and other relevant documents).***

## **Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's, prospective client's, Fund investor's or prospective Fund investor's evaluation of AECOM-Canyon's advisory business or the integrity of AECOM-Canyon's management.

## **Other Financial Industry Activities and Affiliations**

### Broker-Dealer and Registered Representatives

*CP Investments LLC* ("CP Investments") is a registered broker-dealer and member of FINRA and is an indirect affiliate of the Adviser. CPRE's principals are also principals and registered representatives of CP Investments. Certain CPRE employees are also registered representatives of CP Investments. CP Investments acts as placement agent for certain Funds. CP Investments is not compensated by a Fund for acting as placement agent (although it is being indemnified by such Fund to the same extent and subject to the same standards as Canyon). CP Investments will not act as a broker for or an agent of any Fund investor, and its activities on behalf of a Fund should not be construed as a recommendation to purchase interests in any such Funds, as CP Investments makes no such recommendations. Neither the Adviser nor a Fund will otherwise use the services of or pay sales commissions to CP Investments.

### Related Investment Advisers

*AECOM Capital Real Estate, LLC* ("ACRE") is a wholly-owned subsidiary of ACAP (described above), formed in 2018 to provide commercial real estate investment advisory services to pooled investment vehicles and other client accounts. For additional information on ACRE, please see their Form ADV Part 2 available upon request.

*Canyon Partners Real Estate LLC* ("CPRE"), an affiliate of CCA, defined below, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage CCA. CPRE focuses on investments involving commercial real estate and mortgage assets. CPRE has a number of real estate-related investment platforms, including separate accounts and commingled funds which specialize in providing senior mortgage loans, mezzanine loans, preferred equity and joint-venture equity for commercial real estate located in primarily urban markets across the United States. While the clients of CPRE have different investment objectives than the clients of the Adviser, a conflict of interest in rendering advice to the Adviser's clients may arise because the benefits realized by

the principals from managing CPRE's clients' accounts in certain circumstances may exceed the benefit from managing the Adviser's clients' accounts and, therefore, may provide an incentive to favor such other accounts. Neither the Adviser nor CPRE will enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of the Adviser; however, the Adviser and CPRE have considerable discretion to trade for other accounts, and intend to do so to a significant extent. For additional information on CPRE, please see their Form ADV Part 2 available upon request.

*Canyon Capital Advisors LLC* ("CCA"), an affiliate of CPRE, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage CPRE. CCA focuses primarily on distressed debt and structured products of domestic issuers. While the clients of CCA have different investment objectives than the clients of CPRE, a conflict of interest in rendering advice to CPRE's clients may arise because the benefits realized by the principals from managing CCA's clients' accounts in certain circumstances may exceed the benefit from managing CPRE's clients' accounts and, therefore, may provide an incentive to favor such other accounts. The principals of CCA and CPRE will not enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of CPRE; however, the principals have considerable discretion to trade for other accounts, and intend to do so to a significant extent. For additional information on CCA, please see their Form ADV Part 2 available upon request.

*ICE Canyon LLC* ("ICE"), an affiliate of CCA, is a registered investment adviser that is 50% owned by CCA. The remaining 50% is owned by Range Capital LP. ICE generally focuses on emerging market debt. While the clients of ICE have different investment objectives than the clients of the Adviser, a conflict of interest in rendering advice to the Adviser's clients may arise because the benefits realized by the principals from managing ICE's clients' accounts in certain circumstances may exceed the benefit from managing CPRE's clients' accounts and, therefore, may provide an incentive to favor such other accounts. The principals of CPRE and ICE will not enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of CPRE; however, the principals have considerable discretion to trade for other accounts, and intend to do so to a significant extent. For additional information on ICE, please see their Form ADV Part 2 available upon request.

*River Canyon Fund Management LLC* ("River Canyon"), a wholly owned subsidiary of CCA, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage CCA. While River Canyon currently provides discretionary advisory and subadvisory services to registered investment companies, it may also do so for private funds and separately managed accounts. For additional information on River Canyon, please see their Form ADV Part 2 available upon request.

*Canyon CLO Advisors LLC* ("CLO Advisors") is a subsidiary of CCA that was formed and registered with the SEC as an investment adviser in July 2015. It is ultimately controlled and managed by the same principals that control and manage CCA. CLO Advisors acts as collateral manager, sponsor and originator to collateralized loan obligations. For additional information on CLO Advisors, please see their Form ADV Part 2 available upon request.

*Canyon Capital Advisors (Europe) Ltd.* ("CCA EU") is a wholly owned subsidiary of CCA. CCA EU is registered with the Financial Conduct Authority. CCA EU provides research related services to CCA.

#### Other Entities Sponsored by Canyon and its Affiliates

AECOM-Canyon and its affiliates (including CPRE, CCA, ICE, River Canyon and CLO Advisors) currently sponsor a number of private investment vehicles, partnerships, and companies and act as the investment adviser to managed accounts, and trade on behalf of themselves and their affiliates. With the

exception of CPRE, the AECOM-Canyon affiliates do not directly invest in real estate and there should be a limited number of conflicts.

AECOM-Canyon will not enter into transactions in which it knowingly and deliberately favors itself or a single Client over another Client; however, the Adviser is given considerable discretion to trade for other accounts, and intends to do so to a significant extent.

To the extent permitted by the applicable governing documents for a Fund, AECOM-Canyon may, in its sole and absolute discretion, agree to waive or modify the application of any provision of the offering terms of any Fund with respect to any investor, by side letter or otherwise, without obtaining the consent of any other investor. Such side letters may provide for the following modified terms: (i) various notification requirements; (ii) limitations on a Fund's ability to distribute securities in kind upon a redemption request; (iii) the provision of audited financial statements within certain periods of time; (iv) special redemption rights for key person changes and net asset value reductions; (v) the provision of information relating to a Fund's portfolio holdings (subject to non-disclosure agreements and other confidentiality considerations); (vi) reduced fees or fee rebates; (vii) minor investment restrictions that do not materially affect a Fund; (viii) the provision of periodic pricing information; (ix) the waiver or modification of redemption restrictions (such as redemption fees, lock-up provisions or affiliated transfers), required redemption terms or notice requirements; or (x) provisions necessary to accommodate a particular investor's legal, tax, sovereign or regulatory status, accounting considerations, contractual obligations, or internal guidelines or policies.

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

AECOM-Canyon's Sponsors have each adopted a Code of Ethics ("Code") that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. AECOM-Canyon's policy is based upon the Codes adopted by the Sponsors. Any issues that arise under the either Sponsor's Code must be reported to AECOM-Canyon's CCO and senior management immediately. Clients can obtain a copy of the Adviser's and the Sponsors' Code, which includes the Personal Trading Policy, free of charge, from the Adviser's CCO upon request (Doug Anderson (310) 272 1360).

### Interest in Client Investments

Given the nature of the investments managed by AECOM-Canyon, it is not anticipated that its principals, employees and/or affiliates will invest in the same real estate transactions as a Fund, except indirectly as an investor in such Fund. It is possible that principals, officers or employees of the Adviser may buy or sell real estate for their own accounts in a manner that is inconsistent with the Adviser's recommendations to a Client. As described above, the Adviser has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law.

### The Investment Adviser as Principal

The AECOM-Canyon Equity Fund L.P. (the "AECOM-Canyon Fund") will acquire certain seed investments (the "Seed Investments") from ACAP for cash in an amount sufficient to provide ACAP with an overall return of 8% per annum on its capital contributions to the Seed Investments, plus any applicable transfer taxes and transfer-related costs (such amount, the "Acquisition Cost" of the Seed Investments); provided, however, the AECOM-Canyon Fund will not acquire any Seed Investment if the Adviser

determines that the Acquisition Cost in respect of the Seed Investment exceeds the fair market value of the Seed Investment at the time of purchase. The acquisition of the Seed Investments may give rise to a conflict between the interests of ACRE and the AECOM-Canyon Fund investors, as the sale will be on terms that the investors will be deemed to have accepted by subscribing for the AECOM-Canyon Fund. The Seed Investments were originated by ACAP prior to the AECOM-Canyon Fund's launch, are illiquid assets and will be acquired at the Acquisition Cost without any further adjustment based on developments since their origination. While the AECOM-Canyon Fund will not acquire any Seed Investment if the Acquisition Cost exceeds the Adviser's determination of fair market value, that determination may not be consistent with that of other market participants, and the Adviser may have economic incentives to overvalue the Seed Investments in order to enable their acquisition. In particular, AECOM and/or its affiliates have performed services and earned fees, and may continue to perform services and earn fees, in respect to the Seed Investments, including, in some cases, fees that are outside of the ranges that will apply to other AECOM-Canyon Fund investments. Seed Investments that are acquired at a price that exceeds their intrinsic value may be more susceptible to underperformance in the future and delays in realization, hurting the AECOM-Canyon Fund's potential for profitability. There can be no assurance that the Acquisition Cost at which a Seed Investment is acquired provides adequate downside protection to the AECOM-Canyon Fund for the risks inherent in the Seed Investment. Additional information relating to the Seed Investments, including details of the fees charged by AECOM or its affiliates for services provided in respect of those investments, is available from the Adviser upon request (subject to certain customary confidentiality undertakings).

In addition to the above, conflicts of interest may arise in connection with other transactions between the Adviser Parties and the AECOM-Canyon Fund. For example, the Adviser may cause the AECOM-Canyon Fund to purchase investments from or sell investments to, or engage in other transactions with, other clients or vehicles managed or sponsored by the Adviser Parties when the Adviser believes such transactions are appropriate and in the best interests of each client. The Adviser will seek the consent of the Advisory Committee before causing the AECOM-Canyon Fund to participate in any such related party transaction. Such transactions will be effected at a price to be determined by the Adviser, but under no circumstances will that price exceed the Adviser's determination of the fair market value of the investment at the time of the transaction. In addition, an independent third party will review the fair market value for reasonableness. There can be no assurance that any such investment will be profitable to the AECOM-Canyon Fund.

As noted above and in the "Conflicts of Interest," ACAP may sell certain real estate projects to a Fund. Any such transaction would be considered a principal trade under the Advisers Act and in the event that the Adviser decides to engage in any such principal transaction in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction. The Adviser will include in such disclosure: (1) its capacity as principal; (2) the cost to the Adviser of the security, in the case of a sale to a Client, or the price of the security in a resale, in the case of a purchase from a Client; and (3) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with the Adviser.

#### Gifts and Business Entertainment

In the normal course of business, AECOM-Canyon and its officers and employees may provide and/or receive gifts or business entertainment to/from certain individuals and/or entities such as clients, investors, vendors, consultants, and service providers. Any such gift or business entertainment is not premised upon any specific client referral or any expectation of any other type of benefit to AECOM-Canyon. AECOM-Canyon, through its Sponsors, has adopted formal policies and procedures with respect

to the receipt/giving of gifts and business entertainment and the recordkeeping of such gifts and business entertainment.

### Political Contributions

AECOM-Canyon, and its Sponsors, principals and employees may also make political contributions to persons who may serve or seek to serve in elected capacities with certain public entities. Any such political contributions are permitted only to the extent such contributions are in accordance with AECOM-Canyon's policies and procedures regarding political contributions and do not violate the SEC's rule prohibiting pay-to-play activities adopted under Rule 206(4)-5.

### Co-investment with Affiliates

It is contemplated that Clients may "co-invest" with the Adviser and/or principals of the Adviser in respect of certain investment opportunities, and certain of a Client's arbitrage and hedging activities may be conducted through an investment in a Fund. Any such co-investments will be on the same terms as made available to Clients, and no additional fees will be incurred by virtue of such investments. On occasion, a Fund may acquire debt or equity interests in projects financed by other entities managed by affiliates of the Adviser. In addition, a Fund may loan to or invest in entities in which other Clients of the Adviser are investors or lenders, either in similar investment positions or in different positions in the capital structure with different risk and return parameters. A Client may enter into transactions originated by, or issuers otherwise affiliated with, service providers to a Fund and their affiliates. In such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, the Adviser is not precluded from causing a Fund to invest in the securities issued by companies represented in the investment portfolios of other Funds managed by the Adviser or its principals, affiliates or advisory clients. Any such purchases (or sales) will not be on a "principal-to-principal" basis and will only be offered where the Adviser is satisfied that a Fund's interests are not unfairly prejudiced. Without limiting the foregoing, certain Funds co-invest in certain real estate-related opportunities with funds or accounts managed by CPRE. The Funds do not pay any fees to CPRE in connection with such investments. The Adviser has policies and procedures in place to mitigate the inherent conflict of interest such transactions present.

## **Brokerage Practices**

### Execution Quality; Trading and Soft Dollar Arrangements

AECOM-Canyon does not effect securities transactions on behalf of its Clients. As a result, this section is not applicable. However, for more information on AECOM-Canyon's use of affiliated services providers, please see above.

### Trade Error Policy

Given the nature of investments contemplated by AECOM-Canyon, trade errors are very unlikely. However, the Adviser attempts to minimize errors by taking the utmost care in making and implementing investment decisions on behalf of client accounts. Any errors are documented and reported to the Adviser's supervisory personnel, and are reviewed to assess whether an error was a result of a weakness in internal procedures and controls. If it is determined that a weakness in internal controls caused or contributed to the error, mitigating controls are established to rectify the identified control weakness.

### Allocation of Investment Opportunities

AECOM-Canyon attempts to act in a fair and reasonable manner in allocating investment and trading opportunities among AECOM-Canyon's Clients. AECOM-Canyon's allocation procedures seek to allocate investment opportunities among the accounts over time in the fairest possible way, considering both the best interests and specific restrictions of the accounts. AECOM-Canyon intends to ensure that each investment is appropriate for each account in light of the characteristics of the specific investment and the overall portfolio composition of such account. Although the allocation of investment opportunities among Clients may create potential conflicts of interest because of the interests of AECOM-Canyon or because AECOM-Canyon may receive different fees or compensation from its Clients, the allocation decisions will not be based on such interests, fees or compensation.

#### Cross Trades between Investment Advisory Clients

In addition to the information provided above with respect to principal trades, cross trades between advisory clients of the Adviser and/or clients of the Adviser and/or its affiliates are very unlikely to occur. However, should any such trades take place, the Adviser will follow the policies and procedures adopted by CPRE, which include, among others, the need for the CCO to approve all such transactions and the need for an independent third-party review of the price at which such cross trade is effected.

### **Review of Accounts**

The Adviser monitors each of the investments it makes on an ongoing and continuous basis.

On a quarterly basis, investors in each Fund will receive written financial reports, including an unaudited balance sheet, a statement of net income or net loss, a statement of changes in financial position or a cash flow statement, and a supplemental statement of such investor's capital account. On an annual basis, investors in each Fund also will receive audited financial statements of the Fund, valuations of all of the Fund's investments, and tax information necessary for the completion of U.S. tax returns.

### **Client Referrals and Other Compensation**

The Adviser may, from time to time, determine to engage a third party placement agent to introduce potential Clients and/or investors to a Fund. Depending on the specific arrangement, the Adviser may pay a placement fee, which may be calculated as a percentage of the commitment amount of the investor. If the Adviser compensates a placement agent for referring an investor, such arrangements will be disclosed in writing to the investor. In all cases, placement fees will be borne entirely by the Adviser through management fee offsets.

As noted in Fees and Compensation above, 100% of each Fund's pro rata share of any transaction, monitoring, consulting, break-up, and other similar fees received by Adviser and its affiliates and employees in connection with the Fund and its investments, net of unreimbursed transaction expenses incurred by the Adviser or its affiliates and 50% of each Fund's pro rata share of any AECOM Development Fees, will be credited to the Fund and distributed to its investors in accordance with the appropriate Fund's governing documents. From time to time, AECOM or its affiliates may receive fees for providing construction, construction management, design, engineering, consulting, operations and maintenance or other similar services in respect of investments, at rates and on terms generally consistent with rates and terms as would be agreed on an arms' length basis for the provision of similar services to third parties by the applicable AECOM entity. Neither these non-development management fees nor the Guarantee fees received by AECOM or its affiliates will be credited to a Fund and distributed to its investors in accordance with that Fund's governing documents (other than, for the avoidance of doubt, AECOM Development Fees, which will be treated as described above).

## **Custody**

The Adviser will conduct all business operations in such a way that all client cash and securities over which the Adviser is deemed to have custody under applicable law (other than certain privately offered securities) will be preserved in the safekeeping of independent qualified custodians. With respect to each Fund, an independent public accountant will audit a Fund's financial statements annually, and the audited financial statements are distributed to the investors of such Fund.

## **Investment Discretion**

In general, advice to a Fund will be provided on a discretionary basis. The terms and conditions governing the Adviser's discretion over the investments made on behalf of its clients is set forth in writing in the applicable investment management agreement or Fund's governing documents.

## **Voting Client Securities**

Due to the nature of the investments managed by AECOM-Canyon, it does not anticipate receiving proxies even though it has authority to vote its Client proxies. The above notwithstanding, AECOM-Canyon has adopted formal Proxy Voting Policies and Procedures (the "Proxy Policy"). Clients and investors may obtain a copy of Canyon's proxy voting policies and procedures and information on how the Client's securities have been voted upon the Client's request, free of charge from our CCO upon request (Doug Anderson (310) 272 1360).

## **Financial Information**

There are no financial conditions that are reasonably likely to impair AECOM-Canyon's ability to meet its contractual commitments to Clients.