



AII CAPITAL MANAGEMENT, LLC

766 New Los Angeles Ave. #D4
Moorpark, California 93021
(805) 604-2640

Form ADV, Part 2A Brochure

as of August 6, 2021

This "Brochure" provides information about the qualifications and business practices of Aii Capital Management, LLC (the "Adviser" or the "Firm"). If you have any questions about the contents of this brochure, please contact us at (805) 604-2640. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Adviser is registered with the SEC which does not imply any level of skill or training.

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

Item 2 - Material Changes

Since our last filed Brochure, dated February 10, 2021, there have been changes regarding the types of clients that we provide advisory services to. Our advisory services now include services for non-discretionary separate accounts where the adviser effectuates any resulting transactions. We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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Item 4 - Advisory Business

Aii Capital Management, LLC was formed in October 2014 and is registered with the SEC as an investment adviser with its principal place of business located in Los Angeles, California. The Adviser is the investment adviser and general partner ("General Partner") to the Transformation Housing Fund, L.P., a private equity real estate fund (the "Fund"). The Adviser also provides non-discretionary investment advisory services to a separately managed accounts ("SMA") of certain high-net-worth individuals and institutional investors. The Adviser is controlled by Michael Chesser, and Apartment Income Investors, Inc. is an affiliate through common ownership.

Advisory Services

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

Transformation Housing Fund, L.P.

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

Assets Under Management (AUM)

As of June 15, 2021, the firm has \$155,725,000 of non-discretionary assets under management ("AUM") and \$ 7,125,000 of discretionary AUM with total AUM of \$162,850,000.

Wrap Fee Programs

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

Important Additional Considerations

The information provided herein summarizes detailed information provided by investment advisory agreements and the Fund's offering documents. Current and prospective investors should be aware of the substantial risks associated with such investments as well as the terms applicable to such investments. This and other detailed information are provided in the applicable investment advisory agreements and Fund offering documents.

Item 5 - Fees and Compensation

SMA Advisory fees

The Adviser will be paid for advisory services to SMAs in arrears in accordance with the terms of the written investment advisory agreement governing the services to the SMA. Such terms include a fixed monthly fee as well as an hourly fee for advisory services. Advisory fees are billed directly to the holders of SMAs.

SMA Transaction Fees

SMA clients will incur transaction fees including broker fees when an investment is bought or sold. The

transaction fees of real estate investments are often higher than those of other securities.

Fund Management Fees

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

Fund Acquisition Fees

The Adviser (or an affiliate) will be entitled to an acquisition fee equal to 1% of the total purchase price of real estate assets. (“Real Estate Assets”). Such fees are generally paid by a legal entity created for purpose of acquiring the Real Estate Assets. Based on the size of its investment in the that legal entity, the Fund will ultimately pay its pro rata portion of the acquisition fee. No disposition fee will be charged.

Acquisition fees create a conflict of interest between the Adviser and investors in the Fund. Such fees provide an incentive for the Adviser to favor larger or less attractive acquisitions. The Adviser manages this conflict by only selecting investments that are in accordance with the client’s investment objects and in the client’s best interest.

Other Fees Payable to General Partner and Affiliates of the Fund

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

Fund Expenses

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

Important Additional Considerations

The information provided herein summarizes detailed information provided by investment advisory agreements and the Fund’s offering documents. Current and prospective investors should be aware of the substantial risks associated with such investments as well as the terms applicable to such

investments. This and other detailed information are provided in the applicable investment advisory agreements and Fund offering documents.

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

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

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

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

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

SMA clients are not subject to performance-based fees.

Item 7 - Types of Clients

The Adviser provides advisory services to a private equity real estate fund, including any future affiliated parallel funds, sidecar funds, and special purpose investment funds related to the Fund.

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

The Adviser provides non-discretionary advisory services for SMA clients subject to the discretion of the Adviser to accept such clients.

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

Investment Strategies

The Adviser provides SMA clients with non-discretionary investment advisory services only. These services include identifying real estate investments as well as associated due diligence and other research services. The Adviser's strategy for SMA clients is dictated by client objectives and capacity for additional investments. Non-discretionary investment advisory services involve the risk of loss, including principal, and SMA clients should be prepared to bear such losses.

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

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

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

Risk of Loss:

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

1. No established market for potential investments exists.
2. Illiquidity of investments.
3. Risks involved with distressed properties.
4. Changes in legal, fiscal, and regulatory regimes.
5. Changes in taxes, rent control and other government regulations.
6. Nature of equity or equity-related investments.
7. Risk of loss of entire investment.
8. Risks related to sale and operation of properties.
9. Dependence on the Adviser's and Chesser Group Inc. or Aii's key personnel.

10. Portfolio concentration.
11. Investment environment and market risk.
12. Market volatility risks.
13. Risks involved with hotel properties and rental properties.
14. Risks related to investments in Non-U.S. investments.
15. Hazardous waste and other environmental risks.

Real estate markets fluctuate substantially over time. Performance of any investment is not guaranteed. There is a risk of loss of the assets which we or our affiliates manage that may be out of our or our affiliates' control.

Fund specific risks include the risk of loss of the assets which we or our affiliates manage that may be out of our or our affiliates' control. We cannot guarantee any level of performance or that investors in the Fund will not experience a loss of their account assets. There is no assurance that the Fund will be able to generate returns or that the returns will be commensurate with the risks inherent in their investment strategy. The marketability and value of any such investment will depend upon many factors beyond the control of the Fund. The expenses of the Fund may exceed their income, and an investor in the Fund could lose the entire amount of its contributed capital. Therefore, an investor should invest in the Fund if the investor can withstand a total loss of its investment. The past investment performance of the Fund or other affiliated funds cannot be taken to guarantee future results of the Fund or any investment in the Fund.

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

Item 9 - Disciplinary Information

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

Item 10 - Other Financial Industry Activities and Affiliations

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

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

As previously disclosed the Adviser is affiliated with the following entities:

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

Various potential and actual conflicts of interest may arise from the overall investment activities of the Adviser and its affiliates. The following briefly summarizes some of these conflicts but is not intended to be an exclusive list of all such conflicts. Any references to the Adviser in this section will be deemed to include their respective affiliates, partners, members, shareholders, officers, directors and employees.

Prospective investors in the Fund are advised to review the Fund PPM for a more extensive description

of the risks of investing in the Fund.

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

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

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

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

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

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

related services and/or payments of the costs of investment-related research that the General Partner believes to be of benefit to the Fund).

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

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

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

The Code includes the following:

- Requirements related to confidentiality;
- Ethical conduct premised on fundamental principles of openness, integrity, honesty and trust;
- Pre-clearance of outside business activities; and
- Protection of persons who engage in “whistle blowing” activities from retaliation.

On an annual basis, the Adviser requires all employees to certify that they are in compliance with the Code.

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

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

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

Item 12 - Brokerage Practices

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

Item 13 - Review of Accounts

Review of Accounts

Accounts and investment positions for SMAs and the Fund are monitored by the Adviser on a regular basis, no less than quarterly.

The Adviser may periodically review the assets of SMAs and the Fund following a unique occurrence in the financial industry or market generally.

Reports to Clients

Investors in the Fund receive quarterly reports, which include the investor's capital balance and Fund performance statistics. Investors also receive annual audited financial statements for each Fund.

SMA clients receive periodic reporting which may include performance analysis and analysis of the financial impact of certain investment transactions on the portfolio.

Item 14 - Client Referrals and Other Compensation Placement Agent

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

Other Compensation

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

Item 15 – Custody

Rule 206(4)-2 (the "Custody Rule") under the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions). Accordingly, the Adviser is deemed to have custody of client funds and securities.

The Adviser has developed procedures that ensure the safeguarding and protection of the assets it has custody over. The Funds are subject to an annual audit performed by an independent public accounting firm and audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of the Fund's fiscal year end.

Most assets under management by the Adviser are "privately offered securities" as defined in the Custody Rule. All other assets are held in custody by unaffiliated broker/dealers or banks acting as "qualified custodians" in accordance with the Custody Rule.

Item 16 - Investment Discretion

The Adviser maintains the authority to manage Funds on a discretionary basis, in accordance with the investment guidelines, limitations, other provisions and terms set forth in each Fund's limited partnership agreement.

The Adviser manages institutional SMAs on a non-discretionary basis only.

Item 17 - Voting Client Securities

Due to the real estate nature of the Adviser's business, the Adviser does not expect client securities to be eligible for voting. The Adviser will not accept voting authority from clients and does not vote client securities.

Item 18 - Financial Information

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