



ARES COMMERCIAL REAL ESTATE MANAGEMENT LLC

Form ADV Part 2A Firm Brochure

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This brochure provides information about the qualifications and business practices of Ares Commercial Real Estate Management LLC (“ACREM” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 202.721.6180 or mkrieger@aresmgmt.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about ACREM also is available on the SEC’s website at: www.adviserinfo.sec.gov

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

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Item 2 - Material Changes

ACREM makes changes throughout its brochure in an effort to improve and clarify the descriptions of its and its affiliates' business practices and compliance policies and procedures or in response to evolving industry and firm practices. While ACREM does not believe that these changes are material, ACREM has made updates to provide additional information regarding ACREM's business and Clients, and to further refine certain disclosures including information about certain risks of investing in our Clients.

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Item 4 - Advisory Business

ACREM is a Delaware limited liability company that was formed in July 2011 and commenced operations in August 2011. ACREM is a wholly owned subsidiary of Ares Management LLC (“Ares Management”), an SEC-registered investment adviser and subsidiary of Ares Management Corporation (“Ares Corp”), a publicly traded, leading global alternative investment manager. The indirect principal owner of Ares Corp is Antony P. Ressler who, together with certain other members of the senior management team of Ares Corp, indirectly controls Ares Corp through intermediate holding companies.

ACREM provides investment advisory services to its clients, which are comprised of public and private pooled investment vehicles, co-investment vehicles and joint ventures (the “Clients”). ACREM may in the future provide advisory services to other single investor funds, CLOs, CDOs and other structured vehicles, special purpose vehicles, alternative investment vehicles and feeder vehicles. ACREM serves as the investment adviser on a discretionary basis to Ares Commercial Real Estate Corporation (“ACRE”), a public specialty finance company that has elected to be classified as a real estate investment trust for federal income tax purposes. ACRE’s common stock is listed on the New York Stock Exchange, or “NYSE”, under the symbol “ACRE”. References to ACREM in this brochure include, as the context requires, its affiliates.

ACREM’s investment advisory business is principally focused on commercial real estate lending and investing including originating, investing in and managing commercial real estate debt-related investments, including senior mortgage loans, subordinated debt, preferred equity, mezzanine loans, and other commercial real estate related investments. Its advice is primarily limited to real estate-related investments, and ACREM tailors its advisory services to the specific investment objectives and restrictions of each Client that ACREM manages directly or indirectly through its affiliates. The private Clients’ underlying investors are generally either accredited investors and qualified purchasers (as noted in Item 7 below) or non-U.S. persons, depending on the applicable eligibility requirements of the respective Client. We refer to these investors as “Underlying Investors.”

ACREM seeks to achieve attractive risk-adjusted returns primarily through interest, dividends and distributions and secondarily through capital appreciation by originating, investing in and managing middle-market commercial real estate loans and other commercial real estate related investments. With respect to investments in certain assets, to achieve increased tax efficiency, one or more of ACREM’s Clients may make such investments indirectly through subsidiary entities that elect to be taxed as real estate investment trusts for U.S. federal income tax purposes.

Investment advice is provided directly to our Clients, subject to the discretion and control of ACREM or the applicable general partner, and not individually to the Underlying Investors. ACREM tailors its advisory services to the specific investment objectives and restrictions of each Client pursuant to the investment guidelines and restrictions set forth in each Client’s applicable public filings, confidential private placement memorandum, prospectus, limited partnership agreement, advisory agreement, management agreement and other governing documents (the “Governing Documents”). Underlying Investors and prospective investors should refer to the applicable Governing Documents for complete information on the investment objectives,

investment restrictions and risks of such Client. Prior performance, while illustrative of ACREM's investment philosophy and experience, is not indicative of future performance and there is no assurance that any investment objectives will be achieved.

In accordance with common industry practice, ACREM or a Client's general partner, managing member, investment adviser, sub-adviser or manager may enter into "side letters" or similar agreements pursuant to which certain Underlying Investors are granted specific rights, benefits, or privileges (including, without limitation, with respect to differences, including discounts to and/or sharing of, management fees, performance allocations, performance hurdles, withdrawals, access to information, minimum investment amounts, reporting obligations, and other rights or terms including those that may be requested in light of particular investment, legal, regulatory or public policy characteristics of an investor). These rights, benefits or privileges are not always made available to all Underlying Investors nor in some cases are they required to be disclosed to all Underlying Investors. The disclosure and extension of any such rights, benefits or privileges are governed by the corresponding Governing Documents.

ACREM does not participate in any wrap fee programs.

As of December 31, 2020, ACREM had regulatory assets under management ("RAUM") of approximately \$4,437,488,211, of which \$203,227,446 is managed on a non-discretionary basis. RAUM is calculated by aggregating the gross value of all securities accounts for which ACREM provides continuous and regular supervisory or management services.

Item 5 - Fees and Compensation

Compensation and Fee Schedules

All Underlying Investors and prospective investors should carefully review the Governing Documents of each Client in conjunction with this brochure for complete information on the fees and compensation payable with respect to a particular Client.

Different Clients are subject to different advisory fees as compensation for the investment advisory services rendered to the applicable Client (each, an "Advisory Fee"). The precise amount of, and the manner and calculation of, the Advisory Fees for each Client are intended to be reflective of the underlying investment mandate and associated investment risks of the Client and are established by ACREM. Advisory Fees are set forth in each Client's Governing Documents. Fees charged to some Clients may differ from fees charged to other Clients; in those and other situations, such differences are subject to separately negotiated terms and may (or may not) be disclosed to other Clients or Underlying Investors. In certain circumstances, the Advisory Fees payable to ACREM by Underlying Investors of a Client will vary among such Underlying Investors (e.g., based on size of commitment, aggregate commitments to the Client, timing of admission or otherwise) and may be negotiable. Ares Management has entered into strategic relationships with investors and intends to continue to enter into strategic partnerships whereby an investor will commit to invest capital in or to provide sponsor capital to various existing and new strategies managed by Ares Management and its affiliates, including ACREM. In connection with these agreements, strategic partners may pay lower fees than other Underlying Investors in our Clients. Moreover, employees and certain business associates and "friends and family" of ACREM, Ares

Management or its employees generally will not pay an Advisory Fee or performance-based compensation with respect to their direct or indirect investments in each Client.

Advisory Fees paid by a private Client are indirectly borne by the Underlying Investors. Underlying Investors and prospective investors should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

From time to time, a Client may purchase an interest in another Client, provided that the sale or purchase is consistent with ACREM's fiduciary obligations to each Client party to such transaction and is otherwise consistent with the investment mandate of each such Client. While ACREM endeavors at all times to act in the best interests of all Clients, Underlying Investors should be aware that ACREM's receipt of compensation from each Client and the contribution of additional capital by one Client account to another Client account may create potential conflict of interest with respect to such transactions. In certain circumstances, ACREM may choose to reduce or offset the advisory fees of a Client investing in another Client by the amount of advisory fees applicable to the Client's investment in such other Client.

Private Client Advisory Fees

Underlying Investors in ACREM's private Clients are generally all "qualified purchasers" ("Qualified Purchasers") as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and, as such, information regarding the fees and compensation payable by such Underlying Investors is not required to be provided herein.

Private Client Management Fees

ACREM generally receives an annual management fee from its private Clients based upon a percentage of the Client's capital commitments, contributed capital, net asset value or invested capital during the term of the account. Pursuant to the terms of each Client's Governing Documents, the management fee may change at the end of a Client's investment period.

Private Client Performance-Based Fees

ACREM also typically receives performance-based compensation from certain Clients as described further in "*Item 6. Performance-Based Fees and Side-by-Side Management.*"

ACRE Fees

ACRE pays ACREM a base management fee in an amount equal to 1.5% of ACRE's stockholders' equity, per annum, calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, ACRE's stockholders' equity means: (a) the sum of (i) the net proceeds from all issuances of ACRE's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) ACRE's retained earnings at the end of the most recently completed fiscal quarter determined in accordance with GAAP (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) (x) any amount that ACRE pays to repurchase ACRE's common stock since inception, (y) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in ACRE's financial statements prepared in accordance with GAAP, and (z) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between ACREM and ACRE's independent directors and approval by a majority of ACRE's independent directors. As a result,

ACRE's stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on ACRE's financial statements. The management fee is payable independent of the performance of ACRE's portfolio.

ACRE will also pay ACREM an incentive fee with respect to each calendar quarter (or part thereof that the management agreement is in effect) in arrears in cash. The incentive fee will be an amount, not less than zero, equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) Core Earnings (as defined below) for the previous 12-month period, and (B) the product of (1) the weighted average issue price per share of ACRE's common stock of all of its public offerings of common stock multiplied by the weighted average number of all shares of common stock outstanding including any restricted shares of ACRE's common stock, restricted stock units, or any shares of ACRE's common stock not yet issued but underlying other awards granted under ACRE's equity incentive plan) in the previous 12-month period, and (2) 8% and (b) the sum of any incentive fees earned by ACREM with respect to the first three fiscal quarters of such previous 12-month period; *provided, however*, that no incentive fee is payable with respect to any fiscal quarter unless Core Earnings for the 12 most recently completed fiscal quarters is greater than zero. For purposes of the foregoing calculations, Core Earnings is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of ACRE's target investments are structured as debt and ACRE forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain other non-cash charges.

ACRE also reimburses ACREM for expenses incurred on behalf of ACRE including expenses relating to legal, financial, accounting, servicing, due diligence and other services, expenses in connection with the origination and financing of ACRE's investments, communications with the ACRE's stockholders, information technology systems, software and data services used for ACRE, travel, complying with legal and regulatory requirements, taxes, insurance maintained for the benefit of ACRE as well as all other expenses actually incurred by ACREM that are reasonably necessary for the performance by ACREM of its duties and functions under the management agreement with ACRE.

In addition, under the management agreement, if in the future ACRE invests in, acquires or sells assets to any joint ventures with Ares Management or its affiliates or if ACRE co-invests with, purchases assets from, sells assets to or arranges financing from any such transactions, it will require the approval of a majority of ACRE's independent directors. To the extent ACRE co-invests with other investment vehicles that are managed by Ares Management, ACRE will not be responsible for fees other than as set forth in the management agreement, except its proportionate share of fees charged by the managers of such other investment vehicles if approved by a majority of ACRE's independent directors.

In addition to the compensation under the management agreement, ACRE has an amended and restated equity incentive plan (the "Amended and Restated 2012 Equity Incentive Plan") pursuant to which it may grant awards consisting of restricted shares of ACRE's common stock, restricted

stock units and/or other equity-based awards to ACRE's directors (including directors who are affiliated with ACREM or its affiliates), ACREM, Ares Management and its personnel, and other eligible awardees under the plan, subject to an aggregate limitation of 1,390,000 shares of common stock. As of December 31, 2020, 540,070 shares remained available for future issuance under ACRE's Amended and Restated 2012 Equity Incentive Plan.

Deduction of Fees; Timing of Payments; Termination

For each Client, ACREM is authorized under the Governing Documents to charge and deduct Advisory Fees directly from the assets of the Client at the times and in the amounts set forth in the Governing Documents. Advisory Fees are generally paid by each Client by (i) requiring Underlying Investors in such Client to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the Underlying Investors in such Client. Advisory Fees are then paid by the applicable Client to ACREM or one of its affiliates. In addition, ACREM in many cases has the ability to cause Clients to borrow money the proceeds of which may be used for the payment of such fees.

Base Advisory Fees for certain of ACREM's Clients are payable in arrears, generally on a quarterly basis. Because such Advisory Fees are payable in arrears, they are not paid until after services have been rendered. With respect to certain other Clients, Advisory Fees are payable quarterly in advance. Please refer to the applicable Governing Documents for more complete information on the timing of Advisory Fee payments.

Clients have the right to terminate ACREM's advisory services in accordance with the terms of the applicable advisory or investment management agreements. ACREM's general practice is to repay any Advisory Fees paid in advance in excess of the pro rata portion earned by ACREM (based on the number of days during the period) through the effective date of termination. Any such refund would be implemented through a wire transfer of funds to the affected Client upon termination of ACREM's advisory services.

The current term of the management agreement with ACRE expires on May 1, 2021. Thereafter, the management agreement automatically renews for one-year terms unless terminated upon 180 days' written notice prior to the expiration of the then current term in accordance with its terms. ACRE's independent directors review ACREM's performance and the management fees annually and, upon 180 days' written notice prior to the expiration of any renewal term, the Management Agreement may be terminated by ACRE upon the affirmative vote of at least two-thirds of ACRE's independent directors based upon: (a) ACREM's unsatisfactory performance that is materially detrimental to ACRE; or (b) a determination that the management fees payable to ACREM are not fair, subject to ACREM's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of ACRE's independent directors. Additionally, upon any such termination, the management agreement provides that ACRE will pay ACREM a termination fee equal to three times the sum of the average annual base management fee and incentive fee received by ACREM during the 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter.

Other Fees and Expenses

There are three general categories of expenses allocated to and among Clients. As discussed further below, these categories are: (1) Organizational Expenses; (2) Administrative Expenses; (3) Sourcing and Diligence Expenses; and (4) Oversight Expenses. Please refer to the individual Client Governing Documents for more detailed information related to the type of expenses that will be charged or allocated to a particular Client.

ACREM, from time to time, incurs fees, costs, and expenses for the account or benefit of more than one Client. Under these circumstances, each such Client will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of its investment in or commitment to the activity or entity to which such expense relates (subject to the terms of each Client's Governing Documents) or in such other manner as ACREM considers fair and equitable under the circumstances. In the event that a Client's Governing Documents do not permit the payment of a particular expense, ACREM will bear the amount allocable to such Client. In certain other cases, ACREM may elect to bear expenses that a Client's Governing Documents permit the Client to bear. The differences in expenses borne by Clients, even with overlapping investment strategies, are subject to separately negotiated Governing Documents and are typically not disclosed among all Clients. ACREM endeavors to allocate such fees, costs, and expenses on a fair and equitable basis.

Organizational Expenses. These expenses are related to the organization of Clients and related entities and the costs of negotiating and entering into the Clients' Governing Documents. Organizational Expenses are not directly related to operating or administering Clients or sourcing investments. Each Client, subject to its Governing Documents, will typically pay or otherwise bear (generally up to an agreed amount) all fees, costs, expenses, and other liabilities incurred in connection with the formation and organization of, or pre-marketing and sale of interests in, such Client, its general partner or similar person and/or investment manager, including (but not limited to):

- commissions, costs, and all out-of-pocket legal, accounting, tax, filing, regulatory compliance, capital raising, printing, electronic database, state and local formation;
- commissions, costs, fees and expenses of any placement agent or finder;
- "blue sky" filings costs or similar non-U.S. filings and distributions;
- foreign registrations and foreign securities distributors;
- other related legal and organizational matters; and
- travel-related expenses (as defined below) in respect of the foregoing.

Administrative Expenses. In addition to the fees payable to ACREM and as set forth in the applicable Governing Documents, a Client may pay or otherwise bear all or a portion of the fees, costs, expenses, and other liabilities arising in connection with its operation and administration (including the operation and administration of any parallel funds, subsidiaries, alternative

investment vehicles and other special purpose vehicles). Examples of administrative expenses that a Client may pay or otherwise directly or indirectly bear include (but are not limited to):

- any sales or other taxes, fees, or government charges that may be assessed against the Client or ACREM or its affiliates in connection with the activities of such Client, including annual filing, franchise tax, registration and maintenance fees;
- capital payments, interest, fees, agent bank and other bank service fees and other expenses in respect of indebtedness for borrowed money and all costs and expenses associated with negotiating, structuring, entering into, maintaining and terminating any credit facility or other indebtedness for borrowing by a Client;
- computer software specific to the affairs of a Client and market data costs and research-related expenses, including, without limitation, news and quotation equipment, software, and services;
- expenses of holding meetings or conferences with Underlying Investors, whether individually or as a group reporting to a Client's Underlying Investors;
- directors' fees;
- costs related to or in connection with any governmental or other inquiry, investigation, audit, proceeding or regulatory matter, litigation and threatened litigation involving a Client (including the amount of any judgments, settlements or fines paid in connection therewith);
- indemnification obligations;
- fees, costs and expenses attributable to administrative, investment banking, commercial banking, accounting, auditing, appraisal, tax advisory, tax preparation, legal, external consulting, operating advisors, compliance, independent director, custodial, depository and registration services provided to a Client;
- fees, costs and expenses relating to the holding and transacting of a portfolio investment, including, but not limited to, related press releases and other marketing activities respecting the portfolio investment;
- fees, costs and expenses relating to U.S. and non-U.S. filings and distributions, foreign registrations, foreign securities distributors, paying agents and other similar fees, costs and expenses;
- compliance with any applicable law, rule or directive, associated with the activities of the Client or ACREM in respect of the Client any regulatory requirement in any other jurisdiction (including regulatory filings, "blue sky" filings and related out-of-pocket or other expenses of such Client, its general partner or similar person and/or investment adviser, including, but not limited to, FATCA and Form PF filings and any compliance or filings related to such law, regulation or directive);
- premiums related to risk management services and insurance (including insurance to protect the Client, the general partner, the manager, ACREM, its affiliates and their respective officers, directors, employees, partners managers and members in connection with the activities of the Client);

- costs of dissolving and liquidating a Client's investment vehicles;
- costs of amendments to, and waivers, consents and approvals pursuant to, the Governing Documents;
- preparation, delivery and implementation of side letters and any related "most favored nations" election processes;
- costs of tax and audit services to a Client;
- fees, costs and expenses in connection with preparing financial statements and reports to Underlying Investors, tax returns, tax estimates, tax reporting or any other administrative, compliance or regulatory filings or reports or the provision of other information to Underlying Investors or other parties;
- fees, costs and expenses related to the presence of the Client, the general partner, the manager, Ares or its affiliates in jurisdictions in which the Client maintains subsidiary acquisition vehicles, holding vehicles or other special purpose entities of the Client, including internal and overhead costs of the manager or its affiliates such as accommodation, rental expense, office equipment, domiciliation fees, directors' fees, the costs, including salaries, of personnel (including Ares Management employees) and other similar costs;
- administrative fees payable to the manager or its affiliates;
- costs and expenses of a Client's advisory board or committee and its members and its activities attributable to the Client (including expenses incurred by members of the advisory board or committee in connection with attendance at annual and special meetings of the advisory board or committee);
- any extraordinary expense of the Client;
- appraisal and valuation of a Client's and subsidiaries' assets, including the cost of valuation review and assistance provided by third parties;
- legal fees, costs and expenses in connection with the foregoing; and
- transportation (which may include the use of private aircraft, including those owned by employees of Ares Management, car services, parking, etc.), accommodations, meals, and entertainment related to the foregoing (collectively, "travel-related expenses").

Certain Clients will pay the cost of certain services Ares Management employees provide (including a portion of compensation and overhead costs otherwise payable by ACREM), including, without limitation, administration, tax advisory, compliance, legal, finance and accounting and portfolio management and/or internal costs (including compensation and overhead costs). Such services typically consist of services that could otherwise be provided by a third party whose fees, costs and expenses would be paid by the Client.

Sourcing and Diligence Expenses. These expenses relate more generally to investment sourcing and diligence for a particular investment strategy and include fees, costs and expenses of identifying, investigating (including the conducting of due diligence with respect to), evaluating, structuring and negotiating potential investments for such strategy. Examples of sourcing and diligence expenses that a Client may pay or otherwise bear include (but are not limited to):

- commissions, brokerage fees, and similar charges incurred in connection with the purchase or sale of investments (including any merger fees payable to third parties and whether or not any such purchase or sale is consummated);
- fees, costs, expenses and other liabilities and obligations incurred in identifying, sourcing, originating, evaluating, conducting due diligence, investigating, developing (including any retainers, success and finder's fees and other compensation paid to contractors, senior advisors, joint venture partners and sourcing and operating partners), negotiating, structuring, studying (including any market studies and/or the use of expert networks), financing, purchasing, settling, obtaining ratings, monitoring, advising or managing, valuing, disclosing (including press releases and other marketing), holding, and selling or otherwise disposing of portfolio investments;
- travel-related expenses;
- legal, tax, consulting and accounting expenses;
- costs and expenses of attending industry and trade association meetings, conferences or similar meetings to source and evaluate investment opportunities;
- costs and expenses of research and technology (including costs of specialty data subscription and license-based services and risk analysis software); and
- "broken deal expenses" including any such fees, costs, expenses and other liabilities incurred with respect to unconsummated investments which may include such expenses that would have been allocated to co-investors had such proposed investment been consummated.

Oversight Expenses. These expenses are incurred in connection with the oversight of portfolio investments. Examples of expenses that fall within this category include (but are not limited to):

- travel-related expenses for an Ares employee to visit or inspect an investment;
- expenses of consultants (including expert networks and operating advisors);
- brokerage commissions, clearing and settlement charges, investment banking fees and expenses, bank charges, placement, syndication and solicitation fees, arranger fees, sales commissions, bridge financing expenses and other investment, marketing, execution, closing and administrative fees costs and expenses of portfolio investments;
- costs (including administrative and filing fees) of maintaining the holding structure for portfolio investments, including any related legal, accounting, tax, banking, filing, registered office and administrative fees costs and expenses;
- portfolio and risk management expenses (including hedging transactions and related costs); and
- expenses of any actual or potential litigation or other dispute or investigation or inquiry related to any portfolio investment.

Travel-related expenses incurred by Ares Management employees are subject to Ares Management's Travel & Expense Policy.

In most cases, ACREM or Ares Management will select a Client's service providers (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants, and investment or commercial banking firms) and will determine the compensation of such providers without review by, or consent of, the Underlying Investors. To the extent allowable under the Governing Documents, Clients will bear the fees, costs and expenses related to such services, regardless of the relationship the service provider may have to ACREM or Ares Management. ACREM or Ares Management uses reasonable diligence to periodically ascertain whether each service provider is adequately fulfilling its obligations and meeting performance requirements, taking into account factors such as expertise, availability and quality of service, familiarity with the Client and ACREM, and the competitiveness of compensation rates in comparison with other providers who meet the selection criteria. In addition, service providers and/or their affiliates may simultaneously be engaged in separate and distinct arrangements with ACREM, Ares Management, its Clients, and even Client portfolio companies. As such, it is possible that the service provider will charge different rates which may result in more favorable rates or arrangements for ACREM or Ares Management than its Clients or portfolio companies. This may create an incentive for ACREM, Ares Management or its affiliates to select service providers based on potential benefit to ACREM or Ares Management rather than its Clients.

Transaction-Based Compensation

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

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

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

Performance-Based Fees

For ACRE, ACREM or a related person may be entitled to receive certain allocations calculated and charged based on a share of capital gains on or capital appreciation of the assets of the applicable private Client accounts. See discussion above in the section entitled “*Compensation and Fee Schedules.*”

ACREM is entitled to receive performance-based fees in the form of incentive fees, carried interest or other performance-based fees, based on profits, from certain private Clients. Incentive fees are generally based on the net appreciation per annum of the applicable Client, subject to certain net loss carry-forward provisions, high-watermarks and/or preferred returns. Such performance-based fees may also be based on a Client’s cumulative net appreciation to date, in some cases subject to a high-watermark or a preferred return. Carried interest entitles the general partner (or an affiliate) of a Client to a special allocation of income and gains from the Client and is typically structured as a net profits interest in the applicable Client. These performance-based arrangements are structured to comply with Rule 205-3 under the Investment Advisers Act of 1940 (together with all rules and regulations promulgated thereunder, the “Advisers Act”). Any share of profits paid to ACREM or its affiliates by a private Client is separate and distinct from the Advisory Fees charged by ACREM for advisory services. Ares Management, its employees, certain business associates and “friends and family” of ACREM and Ares Management will generally not pay such performance-based fees or allocations with respect to their direct or indirect investments in private Clients.

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

Side-by-Side Management

ACREM or its related persons may provide concurrent advisory services to Clients that are not charged a performance-based fee or allocation by ACREM or its related persons and Clients that are charged a performance-based fee or allocation. The potential for ACREM and its related persons to receive greater fees or allocations from certain Clients creates potential conflicts of interest with respect to the allocation of investment opportunities, as accounts that pay higher fees may create incentives to direct investment ideas to, and/or to allocate investments in favor of, such accounts.

In addition, ACREM, from time to time, may enter into strategic accounts directly or indirectly with Underlying Investors that commit significant capital into a particular Client or across the broader Ares Management platform. Such arrangements often include ACREM granting certain preferential terms to these Underlying Investors, including a waiver or reduction of management fees or performance fees or carried interest, a blended management fee, and/or performance fee or carried interest rates that are lower than those applicable to Clients in which such Underlying Investors invest. Where any such accounts invest in a Client, such indirect preferential terms (or

other preferential terms set forth in the Governing Documents) are generally not subject to the Client's "most favored nation" provisions.

From time to time, a Client will subscribe for or otherwise purchase an interest in another Client, provided that the sale or purchase is consistent with the Governing Documents and ACREM's fiduciary obligations to each such Client. In addition, following the acquisition by ACREM or Ares Management of other investment managers or management contracts from other investment managers, ACREM may commence management of a Client that had previously acquired and continues to hold an interest in another Client. In such situations, while ACREM endeavors at all times to act in the best interests of all of its Clients, its receipt of compensation from each Client and the contribution of additional capital by a Client to another Client may create potential conflicts of interest. In certain circumstances, ACREM may choose to reduce or offset the advisory fees of a Client investing in another Client by the amount of advisory fees applicable to the Client's investment in such other Client.

To mitigate potential conflicts of interest, allocations of investment opportunities among Clients are determined in accordance with Ares Management's investment allocation policy, which may be amended without ACREM's consent, and consistent with its fiduciary duties and corresponding investment mandates. It is Ares Management's policy that all investment opportunities will, to the extent practicable, be allocated among our Clients on a basis that over a period of time is fair and equitable to each Client relative to other Clients, taking into account the terms of the relevant Governing Documents and the relevant facts and circumstances, including, but not limited to:

- (i) differences with respect to available capital (e.g., current cash position and current or anticipated capital additions or withdrawals), size of a Client, minimum investment amounts and remaining life of a Client;
- (ii) differences in investment objectives or current investment strategies, such as objectives or strategies:
 - a) regarding current and total return requirements,
 - b) emphasizing or limiting exposure to the security or type of security in question,
 - c) regarding diversification, including industry or company exposure, currency and jurisdiction, or
 - d) regarding rating agency ratings
- (iii) differences in risk profile at the time an opportunity becomes available;
- (iv) the potential transaction and other costs of allocating an opportunity among various Clients;
- (v) potential conflicts of interest, including whether multiple Clients have an existing investment in the security in question or the issuer of such security;
- (vi) the nature of the security or the transaction including size of investment opportunity, minimum investment amounts and the source of the opportunity;
- (vii) current and anticipated market and general economic conditions; and
- (viii) prior or existing positions in an issuer/security.

Allocations within a particular group of Clients are generally determined by the partners or portfolio managers within the applicable group (or among investment groups, if applicable), in good faith and subject to restrictions in the applicable Governing Documents or regulatory restrictions. Due to the nature of certain real estate instruments, in certain situations an investment may be suitable for multiple Clients, but the investment may not be able to be partitioned and allocated among Clients. Such investments are allocated to Clients on a rotational basis and as a result, may preclude a Client from participating in an investment.

Certain of Ares Management's Clients are subject to regulatory limitations on their ability to invest in the same issuer as other ACREM or Ares Management Clients, and in some cases are precluded altogether from investing in an issuer where another Client is invested or is investing. Ares Management and its affiliates have received an order from the SEC that permits business development companies and registered closed-end management investment companies managed by Ares Management to co-invest in portfolio investments with each other and with affiliated investment funds (the "Co-investment Exemptive Order"). Co-investments made under the Co-investment Exemptive Order are subject to compliance with certain conditions and other requirements, which could limit a Client's ability to participate in a co-investment transaction. Clients' ability to participate in an investment opportunity with other Clients is subject to compliance with existing regulatory guidance, applicable regulations and Ares Management allocation procedures. The foregoing factors in certain circumstances may:

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

In addition, there may be conflicts in the allocation of investments among Ares Management, ACREM and Clients managed by one of its related parties or one or more of its controlled affiliates or among the Clients they manage, including investments made pursuant to the Co-investment Exemptive Order which permits Clients of ACREM to co-invest in portfolio investments with business development companies and registered closed-end management investment companies managed by Ares Management as well as other Ares Management clients.

One Client may hold, acquire or dispose of positions in an investment in which another Client invests or has invested. Such investments and transactions may raise potential conflicts of interest for a Client, particularly if the Client invests in different classes or types of securities of the same investment. In that regard, actions taken by one Client may be adverse to another Client, including, but not limited to, during a restructuring, bankruptcy or other insolvency proceeding or similar matter. In addition, from time to time and reflective of the diversity and breadth of Ares' investment platform, investments made on behalf of Clients may not be consistent with public statements made by Ares as to reflections or opinions on general economic trends, etc. and/or with investments of other Clients due to different underlying investment mandates.

Ares Management Warehouse Line: Ares Management maintains a \$200 million real estate debt warehouse investment vehicle that holds Ares Management originated loans, which are made available to purchase by ACREM, its Clients and other Ares Management clients. Although

ACREM will approve the purchase of such loans only on terms, including the consideration to be paid, that are determined by ACREM in good faith to be appropriate for its Clients, it is possible that the interests of ACREM could be in conflict with its Clients, Underlying Investors and ACRE's stockholders. The opportunity to purchase loans from such vehicle may be on different and potentially less favorable economic terms than other Ares Management clients if ACREM deems such purchase as being otherwise in the best of its Clients.

In addition, Ares Management, ACREM and its principals may co-invest with certain Clients, as permitted and described in applicable Governing Documents. Please see "*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*" for a discussion of how Ares addresses these matters.

Item 7 - Types of Clients

Types of Clients

ACREM provides investment advisory services to public and private pooled investment vehicles including ACRE, private funds, separately managed accounts, joint ventures and co-investment vehicles. Underlying Investors are comprised primarily of may include government and private pension funds, sovereign wealth funds, endowments, foundations, family offices, banks, investment companies, insurance companies, private corporations, and high-net worth individuals. Generally, Underlying Investors participating in our private Clients are required to meet certain suitability and net worth qualifications, such as being (a) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), (b) a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act, (c) a "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act or (d) a non-U.S. person, depending on the applicable eligibility requirements of the respective Client.

Underlying Investors may have conflicting investment, tax and other interest with respect to Client investments. The results of a Client's activities may affect Underlying Investors differently, depending on their different situations. As a consequence, conflicts of interest may arise in connection with decisions made by ACREM that benefits one Underlying Investor over another Underlying Investor. In selecting and structuring investments for a Client, ACREM will consider the investment and tax objectives of the Client as a whole and not the objectives of any individual Underlying Investor. However, there can be no assurance that a result will not be more advantageous to some Underlying Investors than to other Underlying Investors.

Minimum Investment Requirements

The minimum investment in each private Client is states in its Governing Documents and generally requires a minimum investment of \$5 million, although ACREM or an affiliate may waive this at its discretion.

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

Methods of Analysis and Investment Strategies

ACREM's overarching investment strategy is implemented through a highly disciplined underwriting, investment and portfolio management process. The specific methods of analysis and investment strategies utilized by ACREM are described below. For additional details relating to the methods of analysis and investment strategies employed by each Client account, please refer to the applicable Governing Documents of such Client.

ACREM's Clients directly originate and invest in a wide range of self-originated financing opportunities for middle-market owners and operators of U.S. commercial real estate. ACRE seeks to achieve attractive risk-adjusted returns primarily through interest, dividends and distributions and secondarily through capital appreciation by originating, investing in and managing middle-market commercial real estate loans and other commercial real estate related investments. With respect to investments in certain assets, to achieve increased tax efficiency, one or more Clients may make such investments indirectly through subsidiary entities that elect to be taxed as real estate investment trusts for U.S. federal income tax purposes.

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

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

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

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

- a competitive analysis
- corporate profile and credit reviews for major tenants
- due diligence on the borrower and its sponsor(s), including meeting with the borrower's and sponsor's respective management teams
- checking management's backgrounds and references
- analyzing the governance structure of the borrower
- investigation into legal risks

- market and industry research, including an analysis of demographics, key economic fundamentals such as employment and population growth, and comparable transactions
- review of the borrower's business plan with respect to the property

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

If considering investments in Commercial Mortgage Backed Securities ("CMBS"), ACREM would undertake an extensive analysis of the underlying loans and careful review of the security terms and conditions.

Material Risks

The task of identifying investment opportunities and managing such investments can be difficult. There can be no assurance that any Client will be able to make and realize any particular investment or generate returns or that such returns will commensurate with the risks of investing in the types of transactions described in the Governing Documents. Clients and Underlying Investors should carefully consider, among other factors, the following material risks involved with ACREM's investment strategies. Past performance is not indicative of future results.

Not all possible risks are described below, and risks described below may not be applicable to all Clients. Underlying Investors are requested to refer to the applicable Client Governing Documents of the applicable Client for more complete information on investment strategies employed and the corresponding risks associated with such investment strategies.

General Market Risks. Investments made by our Clients are materially affected by conditions in the global financial markets and economic and political conditions throughout the world, such as interest rates, the availability and cost of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to our taxation, taxation of our investors and the possibility of changes to regulations applicable on alternative asset managers), trade policies, political uncertainty and social unrest, trade barriers, commodity prices, tariffs, currency exchange rates and controls and national and international political circumstances (including wars and other forms of conflict, terrorist acts and security operations) and catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes and pandemics could materially affect our business to the extent it materially affects global economies or global financial markets. These factors are outside of our control and may affect the level and volatility of securities prices and the liquidity and value of investments, and we may not be able to or may choose not to manage our exposure to these conditions, which may result in adverse consequences for our Clients and result in substantial losses to our Clients.

Global financial markets have experienced heightened volatility in recent periods, including as a result of economic and political events in or affecting the world's major economies. For example, the June 2016 referendum in the U.K. in favor of exiting the EU and subsequent ongoing uncertainty regarding the terms of the exit, hostilities in the Middle East region, recent U.S. presidential and congressional elections and resulting uncertainties regarding actual and potential shifts in U.S. and foreign, trade, economic and other policies, and concerns over increasing interest rates (particularly short-term rates) and uncertainty regarding the long-term effects of tax reform

in the United States, have precipitated market volatility. More recently, market uncertainty and volatility have been magnified as a result of the global COVID-19 pandemic as well as the upcoming 2020 U.S. presidential and congressional elections and resulting uncertainties regarding actual and potential shifts in U.S. and foreign, trade, economic and other policies, as well as rising trade tensions between the United States and China and hostilities between the United States and Iran. Any escalation of such tensions and hostilities would likely exacerbate these dynamics.

Outbreaks of Infectious or Contagious Diseases and Public Health Emergencies. Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, ebola and the current outbreak of COVID-19 (as defined below) have and are resulting in market volatility and disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity, all of which may result in significant losses to a Client.

Currently, there is an ongoing outbreak of a novel and highly contagious form of coronavirus (“COVID-19”), which the World Health Organization formally declared in March 2020 to constitute a global “pandemic.” This outbreak has caused a worldwide public health emergency, straining healthcare resources and resulting in extensive and growing numbers of infections, hospitalizations and deaths. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including “stay-at-home” and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. In many jurisdictions, restrictive measures have been re-imposed to address subsequent waves of infection. As a result, COVID-19 has significantly diminished global economic production and activity of all kinds and contributed to both volatility and declines in markets for financial assets as well as commodities and other assets. Among other things, these unprecedented developments have resulted in material reductions in demand across some, many or all categories of consumers and businesses, dislocation (or in some cases a complete halt) in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, and strain and uncertainty for businesses and households. Certain industries are likely to be particularly acutely impacted, for instance industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment and industries related to natural resources production and development.

The ultimate impact of COVID-19 — and any resulting decline in economic and commercial activity — on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, although ongoing and potential additional materially adverse effects, including a further global or regional economic downturn (including a recession) of indeterminate duration and severity, are possible. The extent of COVID-19’s impact will depend on many factors, including the ultimate duration and scope of the public health emergency and the restrictive countermeasures being undertaken, as well as the effectiveness of other governmental, legislative and financial and monetary policy interventions (including the effectiveness of vaccines and the implementation of vaccination programs) designed to mitigate the crisis and address its negative externalities, all of which are evolving rapidly and may have unpredictable results. Even if and as the spread of the COVID-19 virus itself is

substantially contained and economies are able to “re-open,” it will be difficult to assess what the longer-term impacts of an extended period of unprecedented economic dislocation and disruption will be on future macro- and micro-economic developments, the health of certain industries and businesses, and commercial and consumer behavior.

The ongoing COVID-19 crisis and any other public health emergency could have a significant adverse impact and result in significant losses to our Clients. The extent of the impact on our Clients and their portfolio companies’ operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of our Clients to source, diligence and execute new investments and to manage, finance and exit investments in the future on behalf of our Clients, or cause significant changes or governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy Clients intend to pursue, all of which could adversely affect Clients’ ability to fulfill their investment objectives. They may also impair the ability of Clients’ investments or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, our operations and the operations of our Clients and their investments may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity’s personnel. These measures may also hinder such entities’ ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

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

Real estate investments are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- political events, acts of war or terrorism, including the consequences of terrorist attacks;

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

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

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

Competition for Real Estate Investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable our Clients to invest all of their commitments in opportunities that satisfy the Client's investment objectives, or that such investment opportunities will lead to completed investments by the Client. ACREM operates in a competitive market for investment opportunities and competition may limit its ability to originate or acquire desirable investments in its target investments and could also affect the pricing of these securities, thereby reducing returns to ACREM's Clients, and may decrease the available supply of investment opportunities deemed suitable for such Clients. A number of entities compete with Clients to make the types of investments that such Clients seek to make. The profitability of ACREM's Clients depends, in large part, on ACREM's ability to originate or acquire target investments on attractive terms. In originating or acquiring target investments, ACREM's Clients will compete with a variety of institutional investors, including other real estate investment trusts, specialty finance companies, public and private funds (including other funds managed by an affiliate of ACREM), commercial and investment banks, commercial finance and insurance companies and other financial institutions.

Many of ACREM's competitors are significantly larger and have considerably greater financial, technical, marketing and other resources. Some competitors may have a lower cost of funds and access to funding sources that are not available to ACREM, such as the U.S. Government. In addition, future changes in laws, regulations and Fannie Mae or HUD program requirements could lead to entry of more competitors. Many of ACREM's competitors are not subject to the operating constraints associated with maintenance of an exemption from the Investment Company Act. In addition, some of ACREM's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, deploy more aggressive pricing and establish more relationships than ACREM. Furthermore, competition for originations of, and investments in, Clients' target investments may lead to the price of such assets increasing, which may further limit the Clients' ability to generate desired returns. ACREM cannot assure investors that the competitive pressures its Clients face will not have a material adverse effect on their business, financial condition and results of operations. Also, as a result of this competition, desirable investments in target investments may be limited in the future and such client accounts may not be able to take advantage of attractive investment opportunities from time to time, as no assurance can be provided that investments that are consistent with Clients' investment objectives will be identified and made.

Dependence on Key Professionals. The ability of a Client to achieve its investment objective will be dependent on the diligence, skill, judgement, business contacts and personal reputations of senior professionals or other key personnel. These individuals possess substantial experience and expertise in investing, are responsible for locating and executing our Clients' investments, and have significant relationships with the institutions that are the source of many of our investment opportunities. Therefore, the departure of one or more of these individuals could have a material adverse effect on the ability of the Client to achieve its investment objectives, cause certain Underlying Investors to withdraw capital or otherwise have a material adverse effect on our business. Further, if such individuals join competitors or form competing companies, it could result in the loss of significant investment opportunities.

Other Obligations of Investment Professionals. Although the senior investment professionals of ACREM or Ares Management intend to devote such time as is necessary to conduct the business and affairs of each Client, they are involved in other activities, including, but not limited to, managing investments, advising or managing Clients whose investment objectives are the same as or overlap with those of other Clients, participating in actual or potential investments of multiple Clients, providing consulting, merger and acquisition, structuring or financial advisory services, including with respect to actual, contemplated or potential investments of a Client, or acting as a director, officer or creditors' committee member of, adviser to, or participant in, any corporation, Client, trust or other business entity. As such, Clients may co-invest in issuers and/or engage in different or inconsistent investment activities vis-à-vis other Clients.

Conflicts of interest may arise in allocating time, services, or resources among the investment activities of the Clients, Ares Management, ACREM and other affiliated entities. Additionally, ACREM, Ares Management and/or its affiliates may, and expect to, receive fees or other compensation from third parties in connection with these investment activities and such compensation shall be for their own account.

Restrictions on Transactions Due to Other Ares Businesses. ACREM and Ares Management sponsors and advise a range of types of clients and expect to continue to develop its investment advisory and related businesses by forming additional vehicles and obtaining new Clients in the future. A Client may hold positions in securities or other assets or be subject to contractual or legal restraints that could prevent a different Client from being able to initiate a transaction that it otherwise might have initiated or to sell an investment that it otherwise might have sold or, in its judgment, such position(s) or restraint(s) may make such a transaction inadvisable.

The investment activities of one or more Clients may be inconsistent with the investment activities of another Client. Furthermore, subject to Ares Management's investment allocation policy, ACREM may have or develop business relations through our other businesses or have duties to Clients that we may consider in determining whether to undertake a transaction, with the result that a Client may not participate in certain transactions in which it might otherwise have participated.

Allocation of Investment Opportunities. Certain Clients may have overlapping investment objectives, including Clients that have different fee structures, and potential conflicts may arise with respect to our decision regarding how to allocate investment opportunities among these Clients. From time to time, ACREM is presented with investment opportunities that fall within the investment objectives of more than one Client. While we seek to manage such potential conflicts of interest in good faith, there may be situations in which the interests of one Client with respect to a particular investment or other matter conflict with the interests of one or more other Clients. We may allocate an investment opportunity that is appropriate for two or more Clients in a manner that excludes one or more Clients or results in a disproportionate allocation based on factors or criteria that we determine, such as differences with respect to available capital, the size of a Client, minimum investment amounts and remaining life of a Client, differences in investment objectives or current investment strategies, such as objectives or strategies, differences in risk profile at the time an opportunity becomes available, the potential transaction and other costs of allocating an opportunity among various Clients, potential conflicts of interest, including whether multiple Clients have an existing investment in the security in question or the issuer of such security, the nature of the security or the transaction including the size of investment opportunity, minimum investment amounts and the source of the opportunity, current and anticipated market and general economic conditions, existing positions in an issuer/security, prior positions in an issuer/security and other considerations deemed relevant to us. In addition, due to the nature of certain real estate instruments, in certain situations an investment may be suitable for multiple Clients, but the investment may not be able to be partitioned and allocated among Clients. Such investments are allocated to Clients on a rotational basis and as a result, may preclude a Client from participating in an investment.

The determinations made by ACREM in connection with the allocation of investment opportunities will frequently be subjective in nature and consequently, (a) an investment that was determined as appropriate for one Client may ultimately prove to have been more appropriate for another Client, and (b) where potential overlaps among Clients exist, Ares may, in accordance with Ares Management's Investment Allocation Policy, forego investment opportunities suitable for a Client. All of the foregoing could in certain circumstances (i) adversely affect the price paid or received by a Client or the size of the position purchased or sold by a Client, (ii) preclude a

Client from participating in an investment or (iii) limit the rights a Client may exercise with respect to an investment.

Overlapping Investments with Other Ares Management Clients. Multiple Clients may hold or may acquire positions in the same portfolio investments or issuer. Such investments and transactions may raise potential conflicts of interest for our Clients, particularly if different Clients invest in different classes or types of securities or investments of the same underlying portfolio investment. In that regard, actions may be taken by some Clients that may be inconsistent, if not adverse to other Clients, including, but not limited to, interests in different parts of a company's capital structure during a restructuring, bankruptcy or other insolvency proceeding or similar matter.

Where Clients invest in different parts of the capital structure of a portfolio investment, their respective interests may diverge significantly in the case of financial distress of the company. In a bankruptcy proceeding, a Client's interest may be subordinated or otherwise adversely affected by virtue of another Client's involvement and actions relating to their investment. This may result in loss or substantial dilution of one Client's investment, while another Client recovers all or part of amounts due to it. In addition, where one Client is a creditor of a portfolio investment in which another Client holds more junior securities, that Client may take actions in its own interests with respect to its rights as a creditor (e.g., with respect to breaches of covenants) that may be adverse to the interests of the other Client as an equity holder. There can be no assurance that the terms of or the return on each Client's investment will be equivalent to or better than the terms of or the returns obtained by other Clients participating in the transaction. The ability to implement a Client's strategies effectively may be limited to the extent that contractual obligations entered into in respect of investments made by other Clients impose restrictions on Clients engaging in transactions that we may otherwise be interested in pursuing.

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

Misconduct by Employees or Service Providers. Misconduct by (i) our employees, (ii) portfolio company directors, officers or employees, and (iii) service providers to the foregoing and/or their respective affiliates could undermine the due diligence efforts of a Client and/or the general partner and cause significant losses to a Client. Misconduct may include entering into transactions without

authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Client, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting a Client's business prospects or future marketing activities, and non-compliance with applicable laws or regulations (and the concealing of any of the foregoing). Such activities may result in reputational damage, litigation, business disruption, market or industry segment volatility and/or financial losses to a Client. Ares has controls and procedures through which we seek to minimize the risk of such misconduct occurring; however, no assurances can be given that such misconduct will be able to be identified or prevented.

Cybersecurity. We and our service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect our Clients and/or Underlying Investors, despite our efforts and the efforts of our service providers to adopt controls, processes and practices intended to mitigate these risks and protect the security of computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to a Client or Underlying Investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to our systems, the systems of our service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, Underlying Investors, third-party service providers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our Clients and Underlying Investors. A successful penetration or circumvention of the security of our systems could result in the loss or theft of an Underlying Investor or Client data, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause our Clients, service providers or us to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. Similar types of operational and technology risks are also present for portfolio companies, which could have material adverse consequences for such portfolio companies and may cause a Client's investments to lose value.

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

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

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

Risks Associated with Investments in Illiquid Instruments. The illiquidity of investments made by certain Clients may make it difficult for ACREM to sell such investments if the need or desire arises. Certain target investments such as B-Notes, transitional and mezzanine loans, preferred equity and other investments are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty or recovery in the event of a borrower's default. In addition, many of the loans and securities will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. As a result, many investments made by certain Clients will be illiquid, and if ACREM is required to liquidate all or a portion of our portfolio quickly, such Clients may realize significantly less than the value at which they have previously recorded investments. Further, such Clients may face other restrictions on their ability to liquidate an investment in a business entity to the extent that ACREM or its affiliates has or could be attributed as having material, non-public information regarding such business entity. As a result, ACREM's ability to vary portfolios in response to changes in economic and other conditions may be relatively limited, which could adversely affect the results of operations and financial condition.

Valuation Risk. Many of the investments made by ACREM's Clients are illiquid and thus have no readily available market prices. Where required by Client's Governing Documents, ACREM value these investments based on its estimate, or an independent third party's estimate, of their fair

value as of the date of determination, which often involves significant subjectivity. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. Because such valuations are subjective, the fair value of certain assets may fluctuate over short periods of time and ACREM's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. In addition, valuations of investments may be subject to rapid and/or significant changes caused by, among other matters, significant market volatility as caused by the COVID-19 pandemic or other global events.

Additionally, because such valuations will be inherently uncertain, may fluctuate significantly over short periods of time and will be based on estimates and other material assumptions, ACREM's determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and may differ materially from the values that a Client may ultimately realize on such investments.

The amount and timing of carried interest or incentive fee received by Ares or its affiliates with respect to a Client will depend in part on the value of such Client's assets and liabilities. If the valuations are incorrect, the amount of carried interest or incentive fee received, or the timing of receipt of such carried interest or incentive fee, could also be incorrect.

Risks Related to Yields and Pricing of Investments. We value the potential investments for Clients based on yields and risks, taking into account estimated future losses on the mortgage loans and the collateral underlying mortgage loans and included in securitization pools, and the estimated impact of these losses on expected future cash flows and returns. ACREM's loss estimates may not prove accurate, as actual results may vary from estimates. If ACREM underestimate the asset-level losses relative to the price a client account pays for a particular investment, its Clients may experience losses with respect to such investment.

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

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

Risks Associated with Senior CRE Loans and CMBS Mortgage Loans. Senior commercial real estate loans made by certain Clients will be secured by commercial property and will be subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

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

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

Risks Related to Ownership of Certain Real Property. Real property owned by our Clients and not used in the ordinary course of their operations, including hotel properties, subjects our Clients

to risks particular to CRE property. In particular, ownership of hotel properties subjects our Clients to various operating risks common to the lodging industry, many of which are beyond our or our Clients' control, including the following:

- competition from other hotel properties and non-hotel properties that provide nightly and short-term rentals;
- over-building of hotels, which could adversely affect occupancy and revenues;
- dependence on business and commercial travelers, conventions and tourism;
- dependence on the operator/franchisor of the hotel, as management/franchise agreements are long-term in nature and have limited termination rights;
- increases in energy costs, airplane fares, government taxes and fees, and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to increased operating expenses, including employment costs, inflation and other factors that may not be offset by increased room rates;
- adverse effects of international, national, regional and local economic and market conditions;
- potential claims, litigation and threatened litigation from guests, visitors to hotel properties, employees, vendors, contractors, sub-contractors and others;
- costs associated with the ongoing need for renovations and other capital improvements, including the replacement of furniture, fixtures and equipment;
- labor strikes, disputes or disruptions, including as a result of unionized labor;
- unforeseen events beyond our control, such as terrorist attacks, cyber-attacks, travel-related health concerns including pandemics (such as the current COVID-19 pandemic) and epidemics, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- strength of the United States dollar which may reduce in-bound international travel and encourage out-bound international travel;
- adverse effects of a downturn in the lodging industry; and
- risks generally associated with the ownership of hotel properties and real estate.

Moreover, our ability to sell CRE, including hotel properties, is affected by public perception that banks are inclined to accept large discounts from market value in order to quickly liquidate properties. Any material decrease in market prices may lead to CRE write-downs, with a corresponding expense in our statement of operations. Write-downs on CRE or an inability to sell CRE properties could have a material adverse effect on our future business, results of operations, financial condition and the value of our common stock. Furthermore, the management and resolution of CRE increases our costs and requires significant commitments of time from our

management and directors, which can be detrimental to the performance of their other responsibilities.

Risks Associated with Loans on Properties in Transition. Certain ACREM Clients may originate transitional loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition, construction or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an asset that has not been stabilized or has been under-managed and is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and the applicable Client will bear the risk that it may not recover some or all of its investment.

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

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

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

Risks Associated with Commercial Mortgage Backed Securities Investments. Certain Clients may acquire CMBS. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve

fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the “first loss” subordinated security holder (generally, the “B-Piece” buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which a Client invests, such Client will not be able to recover all of its investment in the securities it purchases. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline, less collateral value would be available to satisfy interest and principal payments due on the related mortgage-backed securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

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

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

Risks Related to Changes to the Method of Determining the London Interbank Offered Rate (“LIBOR”). National and international regulators and law enforcement agencies have conducted investigations into a number of rates or indices that are deemed to be “reference rates.” Actions by such regulators and law enforcement agencies may result in changes to the manner in which certain reference rates are determined, their discontinuance, or the establishment of alternative reference rates. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It appears highly likely that LIBOR will be discontinued or modified by 2021.

The future of LIBOR at this time is uncertain. The current nominated replacement for United States Dollar-LIBOR is the Secured Overnight Financing Rate (“SOFR”) and the nominated replacement for GDP-LIBOR is the Sterling Overnight Interbank Average Rate (“SONIA”). In March 2020, the Federal Reserve began publishing 30-, 90- and 180-day tenor SOFR Averages and a SOFR Index and in July 2020, Bloomberg began publishing fall-backs that the International Swaps and Derivatives Association (“ISDA”) intends to implement in lieu of LIBOR with respect to swaps and derivatives. In many cases, the nominated replacements, as well as other potential replacements, are not complete or ready to implement and require margin adjustments. On November 30, 2020, the ICE Benchmark Administration (“IBA”), the FCA-regulated LIBOR administrator, announced its intention to (i) consult on LIBOR cessation in December 2020 and, (ii) to the extent confirmed during such consultation, to cease the one-week and two-month United States Dollar (“USD”)–LIBOR tenors by December 31, 2021, and to cease all other USD-LIBOR tenors by June 30, 2023. Further, as of December 31, 2020, there is no forward-looking term-rate SOFR available and there is no guarantee that one will become available prior to the full discontinuation of LIBOR.

Potential changes, or uncertainty related to such potential changes, may adversely affect the market for LIBOR based securities, including LIBOR indexed and floating rate debt securities, which comprise a significant portion of some of our Clients’ portfolios, or the cost of borrowings of our Clients that utilize LIBOR-based leverage. In addition, changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR based securities, including the value of the LIBOR indexed, floating rate debt securities in our Clients’ portfolios, or the cost of our Clients’ borrowings.

Hedging Policies/Risks. ACRE and certain other Clients may pursue various hedging strategies to seek to reduce their exposure to adverse changes in interest rates or currencies. This hedging activity may vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect them because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, the duration of the hedge may not match the duration of the related liability;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

In addition, ACREM may fail to recalculate, readjust and execute hedges in an efficient manner. Any hedging activity in which ACREM engages may materially and adversely affect its Clients. Therefore, while ACREM may enter into such transactions seeking to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if ACREM had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, ACREM may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent ACREM and its Clients from achieving the intended hedge and expose the Clients to risk of loss.

Leverage. Certain Clients' return on investment is dependent upon their ability to use leverage. Such Clients' ability to obtain the leverage necessary on attractive terms depends upon many factors including market conditions and the Clients' performance. The failure to obtain leverage at the contemplated advance rates, pricing and other terms could have a material adverse effect on such Clients. In addition, a Client may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Client's investments). Because amounts borrowed under a subscription line typically are secured by pledges of the relevant general partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Client fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Leverage creates an opportunity for increased returns, but at the same time creates risks. There can be no assurance that Clients' use of leverage will prove to be beneficial. Moreover, there can be no assurance that Clients will be able to meet their debt service obligations and, to the extent that they cannot, such Clients risk the loss of some or all of their assets or a financial loss if the Clients are required to liquidate assets at a commercially inopportune time. In addition, the debt may be recourse for such Clients so an impairment or potential impairment of an investment may create a risk of loss of some or all of their assets.

Construction loans involve an increased risk of loss. Certain Clients invest in and may continue to invest in construction loans. If such Clients fail to fund their entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, but not limited to: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against the client for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

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

These factors may reduce the Clients' net income and adversely affect the funds available for distribution to the Underlying Investors.

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

Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements. In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision adopted the Basel III standards several years ago. As of 2019, financial institutions are required to fully comply with the Basel III standards, which could cause an increase in capital requirements for, and could place constraints on, the financial institutions from which ACREM and its Clients borrow. In January 2018, U.S. regulators implemented rules requiring enhanced supplementary leverage ratio standards, which would impose capital requirements more stringent than those of the Basel III standards for the most systematically significant banking organizations in the U.S. Adoption and implementation of the Basel III standards and the supplemental regulatory standards adopted by U.S. regulators may negatively impact ACREM and its Clients' access to financing or affect the terms of our future financing arrangements. In January 2016, the Basel Committee published its revised capital requirements for market risk, known as Fundamental Review of the Trading Book or FRTB, which are expected to generally result in higher global capital requirements for banks that could, in turn, reduce liquidity and increase financing and hedging costs. The impact of FRTB will not be known until after any resulting rules are finalized and implemented by the U.S. federal bank regulatory agencies.

Item 9 - Disciplinary Information

Except as described below, neither ACREM nor any of its executive officers, members of its investment committees or portfolio management committees or other "management persons" as defined in Form ADV has been subject to legal or disciplinary events related to this Item.

On May 26, 2020, without admitting or denying any wrongdoing, Ares Management consented to the entry of an administrative and cease-and-desist order (the "Order") instituted by the SEC. According to the Order, in 2016, Ares Management's written policies and procedures regarding the prevention of misuse of potentially material nonpublic information ("MNPI") were not

sufficiently implemented and enforced in certain circumstances when Ares Management had an employee serving on the board of directors of a public company in which one of its Clients was invested. The Order did not find any misuse of MNPI by Ares Management or its employees; however, the Order included findings of violations of Section 204A and Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder with respect to the implementation and enforcement of its written procedures. The Order includes cease and desist provisions and a censure, and payment of a civil penalty in the amount of \$1 million.

From time to time, ACREM and/or its employees are subject to regulatory inquiries, litigation, investigations, disputes related to investment and employment-related matters and other potential claims arising out of the ordinary course of business. Neither ACREM nor any of its management persons has been the subject of any material legal or disciplinary proceedings that we believe are material to a Client's evaluation of its business or the integrity of its management.

Item 10 - Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

Ares Investor Services, LLC ("AIS"), a wholly owned subsidiary of Ares Management, the Firm's parent company, is a broker-dealer currently registered with the SEC and the Financial Industry Regulatory Authority to conduct private placements. AIS acts as a placement agent for certain funds sponsored by Ares Management and its affiliates and for certain Clients of ACREM. Certain Ares Management employees who are involved in marketing activities are registered representatives of AIS. Although Clients will not directly pay any compensation to AIS, Ares Management is responsible for paying certain expenses of the operation of AIS. Such payments may be considered to be compensation to AIS. AIS does not currently act as a placement agent of private securities for third parties or engage in brokering of portfolio company transaction, but may in the future perform these services. If compensation is received, such compensation would be made on a fully disclosed basis. Any such compensation would generally be determined through negotiation and charged at market rates.

Relationships with Related Persons

Ares Management, the parent company of ACREM and an SEC-registered investment adviser, is also the parent company of the following SEC-registered investment advisers:

- Ares Capital Management LLC ("ACM"), the investment manager of most of Ares' U.S. Direct Lending Funds and institutional accounts including Ares Capital Corporation ("ARCC"), a closed-end, non-diversified specialty finance company that is regulated as a business development company under the Investment Company Act. In addition, ARCC directly or indirectly owns the equity and voting interests of its portfolio company, Ivy Hill Asset Management, L.P. ("Ivy Hill"), an SEC-registered investment adviser; and
- Ares Capital Management II LLC ("ACM II"), the investment adviser of Ares Dynamic Credit Allocation Fund, Inc. ("ARDC"; NYSE:ARDC) a non-diversified closed-end registered management investment company. ACM II also provides advisory services to certain other registered investment companies.

Ares Management is also the majority owner of CION Ares Management, LLC (“CAM”), an SEC-registered investment adviser and the investment adviser of CION Ares Diversified Credit Fund.

In addition, several advisory entities controlled by Ares are relying advisers included in Ares’ umbrella registration. Some of these relying advisers are registered with foreign financial regulatory authorities, including:

- the UK Financial Conduct Authority in the United Kingdom;
- the Commission de Surveillance du Secteur Financier in Luxembourg;
- the Cayman Islands Monetary Authority;
- the Securities and Futures Commission in Hong Kong;
- the Monetary Authority of Singapore; and
- the Financial Services Commission in the Republic of Mauritius.

ACREM’s related parties also include affiliates of Ares Management’s that are investment advisers to the various investment management clients managed within the Ares platform, including the Clients, and are the general partners and, in many cases, limited partners of such Clients.

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

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

Principals, officers and certain employees of ACREM, members of their families and related persons of ACREM may participate directly or indirectly as investors in certain Clients as described in the applicable Client Governing Documents, which investments may be in privately negotiated transactions at varying prices.

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

For a general discussion of how ACREM addresses resulting conflicts of interest, see discussion under “*Item 11 – Code of Ethics*” below.

Selection or Recommendation of Other Advisers

ACREM does not recommend or select other third-party investment advisers for its Clients. Except for Ares Management (ACREM’s parent), ACM and ACM II, each a subsidiary of Ares

Management and ACREM's related persons, CAM and Ivy Hill, ACREM does not have business relationships with other advisers that create a material conflict of interest.

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

Statement of Business Ethics and Code of Ethics

Ares Management has adopted an Ethics Policy (the "Code") pursuant to Rule 204A-1 under the Advisers Act that applies to ACREM and sets forth standards of business and fiduciary conduct that ACREM requires of Covered Persons (as defined in the Code). The Code is reasonably designed to minimize actual or potential conflicts of interest between Covered Persons, ACREM, and its clients and prevent violation of federal securities laws. The Code provides that no Covered Person may engage directly or indirectly in any business in a manner detrimental to the clients or use confidential information gained by reason of his or her employment by or affiliation with Ares Management in a manner detrimental to clients. The Code includes, among other things: a) policies and procedures regarding personal securities transactions; and b) disclosure and reporting obligations of personal securities transactions and holdings. The reporting and pre-clearance requirements of the Code apply to all ACREM employees and immediate family members living in their household. Under the Code, transactions involving the purchase or sale of certain securities are subject to pre-clearance, reporting and minimum holding requirements. All ACREM employees are required to make compliance certifications attesting to compliance with the Code on a quarterly and an annual basis. The compliance certifications are administered through Ares Management's compliance portal.

The Code is available upon the written request of any Client, Underlying Investor or a prospective investor.

Participation or Interest in Client Transactions

As general partners, limited partners or investors in certain Clients, ACREM and its related persons have indirect beneficial interests in the securities owned by such Clients and will share in any profits and losses generated by such Clients' investments. The Code requires that before, or at the time that, a Covered Person recommends or authorizes the purchase or sale of a covered security by a Client, he or she must disclose to the Chief Compliance Office ("CCO"): a) any beneficial ownership in such covered security that he or she has or proposes to acquire; b) any interest he or she has or proposes to acquire in any third party account in which such covered security is held; c) any beneficial interest in any other security that may benefit from such proposed purchase, sale or other action; and d) any interest in or business relationship with the issuer of such covered security that a Covered Person and his or her "covered family members" (as defined in the Code) has or proposes to acquire.

ACREM and its related persons may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Clients in connection with certain "warehousing" transactions, provided that the sale is consistent with ACREM's fiduciary obligations to such collective investment vehicles. Such transactions will be fully disclosed in writing, and the written consent of the appropriate Client (which, in certain circumstances, may be provided by the Client's advisory committee) will be obtained prior to the consummation of any

such transactions in accordance with Section 206(3) of the Advisers Act and all other applicable state and federal securities laws.

ACREM's principals may invest or transact with certain Clients, as described in the applicable Governing Documents.

ACREM has adopted an allocation policy designed to ensure that all investment opportunities are, to the extent practicable, allocated among its Clients on a basis that over a period of time is fair and equitable to each Client relative to other Clients as well as a co-investment policy designed to ensure fair allocation of co-investment opportunities amongst the Clients.

Personal Trading

The Code covers personal trading policies and procedures of all Covered Persons and their covered family members. Under the Code, Covered Persons and their covered family members are permitted to trade in securities for their own accounts so long as they follow the Code, which contains certain preclearance requirements, reporting requirements and other provisions that restrict trading by Covered Persons. Generally, for "covered securities" transactions in a Covered Person's or a covered family member's account, Covered Persons are required to obtain preclearance approval from the Compliance Department. Covered securities purchased by a Covered Person or a covered family member are generally subject to a minimum holding period. The Code also requires that all covered securities holdings and transaction information in covered securities accounts be disclosed to the Compliance Department. Any transactions by a Covered Person in securities or investments that are held by one or more Clients are generally subject to a blackout period after any Client has traded in any security of that issuer and may further be restricted further by a Client's Governing Documents. The Code's procedures are administered by the Firm's Compliance Department. On a quarterly basis, Covered Persons must certify to all covered securities transactions, effected by them or their covered family members, including the nature of the transaction, the price of the security and the name of the broker, dealer or bank with or through which the transaction was effected. On an annual basis, Covered Persons must provide a full accounting of covered securities holdings held by them and their covered family members. Covered securities transactions over which the Covered Person or their covered family members had no direct or indirect influence or control are exempt from these reporting requirements. Lastly, Covered Persons are periodically required to certify that they have read and understand the Firm's compliance policies, including the Code, and certify that they have complied with the provisions of the Code.

Other Potential Conflicts

Certain Ares Management employees and/or their covered family members own private placement interests, including but not limited to, investments in private pooled investment vehicles, other private funds and in single business entities, which could result in a conflict of interests between a Client and the employee in light of a potential personal benefit to the employee. A conflict could arise when an employee invests in an issuer and/or their affiliates who may become a portfolio company, competitor, service provider, counterparty, sponsor or any other business partner of Ares Management, ACREM and/or its Clients. In order to mitigate such potential conflicts, these investments are monitored through the pre-clearance and reporting requirements under the Code.

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

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

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

Item 12 - Brokerage Practices

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

ACREM typically originates and engages in privately negotiated transactions directly with borrowers and does not utilize broker-dealers to effect portfolio investments. However, in certain transactions, including but not limited to investments in CMBS and CRE CDO bonds, ACREM may effect transactions through a broker-dealer. In selecting broker-dealers to effect transactions, ACREM seeks to obtain best execution by considering various factors in addition to the quantitative factors such as price or spreads/commission rates, including, but not limited to, ability to maintain the confidentiality of trading intentions, timeliness and certainty of execution, liquidity of the securities traded, ability to place trades in difficult market environments, ability to access a variety of market venues, expertise in specific securities, credit quality, financial condition (counterparty risk) and business reputation. While ACREM generally seeks reasonably competitive trade execution costs, a client account will not necessarily pay the lowest spread or commission available.

Research and Other Soft Dollar Benefits

Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act") provides a safe harbor that permits advisers, when selecting brokers to execute transactions for client accounts, to take

into account certain research products and services provided to the adviser by brokers. ACREM does not engage in soft dollar arrangements.

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

ACREM does not permit Clients to direct brokerage.

Item 13 - Review of Accounts

Review of Client Accounts

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

Reports to Clients

ACREM provides periodic reports to Underlying Investors as required by the applicable Governing Documents or otherwise agreed upon with a Client or Underlying Investor. Underlying Investors should refer to the applicable Governing Documents for further information regarding the types and substance of the reports provided to Underlying Investors.

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

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

Finally, ACREM hosts annual investor meetings and calls and other interim calls as appropriate for certain Clients.

Item 14 - Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

In connection with investments made by certain Clients, ACREM or its related persons receive commitment, structuring, monitoring and other transaction fees from certain portfolio investments in which ACREM and other Clients may invest or propose to invest. The potential for ACREM and its related persons to receive such economic benefits may create conflicts of interest as ACREM and its related persons may have economic incentives to invest in portfolio investments that provide such benefits. To mitigate potential conflicts, such benefits received by ACREM in connection with its services related to portfolio companies or transactions are generally offset against Advisory Fees payable by the related Client.

Third Party Compensation for Client Referrals

Any Client may incur sales charges to compensate broker-dealers who assist in obtaining subscriptions. The sales charge may be payable by Underlying Investors, one or more Clients, the general partner (or equivalent thereof), ACREM, Ares Management or a combination thereof. In addition, ACREM may compensate third parties who refer prospective or actual investors to its Client.

Certain of the solicitors or placement agents utilized to market Clients as well as individuals employed by such solicitors or placement agents, may from time to time invest in the Clients and may not pay, or pay reduced, Advisory Fees with respect to their investment(s). In addition, ACREM may transact Client orders through broker/dealers that also act as solicitors or placement agents for its Clients.

ACREM endeavors at all times to put the interests of its Client first as part of ACREM's fiduciary duty. Nevertheless, the receipt of compensation by placement agents and the potential receipt of brokerage commissions by broker-dealers create potential conflicts of interest and may affect the judgment of placement agents and broker-dealers when making referrals to Clients. Moreover, potential conflicts of interest may arise between the interests of such Clients in obtaining best price and execution and ACREM's interest in receiving future referrals to such Clients from certain broker-dealers. ACREM addresses these potential conflicts of interest by seeking to obtain best execution by considering factors set forth in the sub-section titled "*Brokerage Practices*" above.

Item 15 - Custody

It is ACREM's general policy to not have physical custody of any Client assets. However, ACREM may be deemed to have custody of the assets of its Clients because of the authority it or a related party has over such Clients or their assets. It is ACREM's policy generally to cause Clients with assets over which ACREM is deemed to have "custody" to be audited annually and to distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to Underlying Investors no later than 120 days after the end of each fiscal year (180 days if the Client is a "fund of funds"). In addition, upon the final liquidation of any such Client, ACREM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Client to all Underlying Investors promptly after completion of the audit.

In the alternative, where ACREM is deemed to have custody of a Client solely due to its ability to withdraw Client funds to pay its Advisory Fees, ACREM may comply with the custody rules under the Advisers Act by having a reasonable belief that a qualified custodian will send quarterly account statements to each Underlying Investor or Client. ACREM urges all Clients and Underlying Investors to compare the reports they receive from ACREM to the statements they receive from their custodians. Any issues or discrepancies should be communicated to ACREM promptly.

Item 16 - Investment Discretion

Subject to the investment objectives, policies and restrictions of each Client and as set forth in the Governing Documents thereof, ACREM has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each such Client, including the selection of, and commissions paid to, broker-dealers.

Item 17 - Voting Client Securities

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

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

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

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

Some examples of potential conflicts can include;

- ACREM provides investment advice to an officer or director of an issuer and ACREM receives a proxy solicitation from that issuer;
- An issuer or some other third party offers ACREM or an employee, officer, director, partner or member of Ares Management (an "Associate") compensation in exchange for voting a proxy in a particular way;
- An Associate or a member of an Associate's household has a personal or business relationship with an issuer;

- An Associate has a beneficial interest contrary to the position held by ACREM on behalf of its clients;
- ACREM holds various classes and types of equity and debt securities of the same issuer contemporaneously in different Client portfolios; or
- Any other circumstance where ACREM's duty to service its Clients' interest could be compromised.

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

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

Item 18 - Financial Information

Not Applicable.