

**FIRM BROCHURE**  
(Part 2A of Form ADV)

---

**Aetos Capital Real Estate, LP**  
*On behalf of ACA II Advisors, LLC and its “Relying Advisors”*

---

12 East 49<sup>th</sup> Street  
New York, NY 10017  
+1 (212) 710-3200  
**[www.aetoscaptalasia.com](http://www.aetoscaptalasia.com)**

This brochure provides information about the qualifications and business practices of Aetos Capital Real Estate, LP. If you have any questions about the contents of this brochure, please contact us at +1 (212) 710-3200 and/or [info@aetoscaptalasia.com](mailto:info@aetoscaptalasia.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registering with the United States Securities and Exchange Commission as an investment adviser does not imply a certain level of skill or training on the part of Aetos Capital Real Estate, LP or its affiliated relying advisors.

Additional information about Aetos Capital Real Estate, LP is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Updated: March 31, 2023**

**ITEM 2**  
**MATERIAL CHANGES**

This brochure does not contain material changes from our last annual updating amendment of Form ADV filed on March 31, 2022.

**ITEM 3**  
**TABLE OF CONTENTS**

Item 1:	Cover Page .....	i
Item 2:	Material Changes.....	ii
Item 3:	Table of Contents .....	iii
Item 4:	Advisory Business.....	1
Item 5:	Fees and Compensation.....	5
Item 6:	Performance-Based Fees and Side-By-Side Management .....	9
Item 7:	Types of Clients .....	10
Item 8:	Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9:	Disciplinary Information .....	19
Item 10:	Other Financial Industry Activities and Affiliations.....	20
Item 11:	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	22
Item 12:	Brokerage Practices.....	24
Item 13:	Review of Accounts .....	26
Item 14:	Client Referrals and Other Compensation .....	28
Item 15:	Custody.....	29
Item 16:	Investment Discretion .....	30
Item 17:	Voting Client Securities.....	31
Item 18:	Financial Information .....	32

## ITEM 4 ADVISORY BUSINESS

### **Summary**

Aetos Capital Real Estate, LP (“Aetos Capital Real Estate” or “ACRE”), through several investment advisory subsidiaries, provides discretionary and non-discretionary investment and asset management services primarily to the closed-end, privately offered investment funds described on Schedule D of our Form ADV (each, a “Fund”; collectively, the “Funds”). ACRE and various related entities act as the sponsor, managing member, general partner (or preferred shareholder) and/or investment adviser of the Funds, which are typically organized as limited partnerships, limited liability companies and/or exempted companies formed under the laws of Delaware or the Cayman Islands. The Funds are generally commingled investment vehicles in which large institutions (such as public and corporate pension plans) and other qualified investors have invested through private offerings<sup>1</sup>. Each Fund may include multiple parallel vehicles that invest side-by-side based on available capital, as well as special purpose investment vehicles formed for tax, legal, regulatory or other reasons to facilitate a Fund’s investment activities.

The Funds were organized to invest in real estate assets and portfolios of assets and real estate-related entities in Asia and principally in Japan and Greater China. Fund investments have historically spanned several sectors including office, retail, residential, hospitality, land and other property types and numerous investment structures including standalone real estate assets, portfolios of real estate assets, joint ventures and operating companies, as well as real estate-related debt instruments. Among other things, the Funds have targeted distressed assets for which there appeared to be significant potential to add value through active financial and asset management.

In addition to advising the Funds, from time to time Aetos Capital Real Estate enters into arrangements to manage one or more discretionary or non-discretionary separate accounts that make investments in real estate and real estate-related investments (each, a “Client”; collectively with the Funds, “Clients”). Each Client is managed in accordance with its governing agreements and accordingly it should be noted that some responses in this brochure may vary with respect to certain Clients that invest in single investments or a limited number of investments with customized terms. In the case of non-discretionary clients, the underlying investors have reserved some or all of the authority otherwise granted to ACRE by discretionary Clients to acquire, dispose and manage Client assets.

The scope of our investment advisory services generally includes: (1) researching investment opportunities and developing strategies and underwriting practices to capitalize on them in a manner appropriate for each Client; (2) identifying, evaluating, performing due diligence of, negotiating, structuring, financing and consummating acquisitions; (3) monitoring and managing existing assets with the goal of maximizing value; (4) managing the disposition of investments; (5) managing a Client’s business affairs including cash management, financial reporting, accounting and tax filings; and (6) providing services for the benefit of the underlying investors in each Client including customary investor relations functions. The services performed for a particular Client may vary in accordance with the specific agreements we enter into with such Client. In providing

---

<sup>1</sup> Throughout this brochure, references to the “Funds” or to “Clients” are distinct from references to the underlying investors in such vehicles.

services to Clients, we rely on certain non-U.S. subsidiaries that provide local resources and expertise in the regions in which we invest Client assets. Such non-U.S. subsidiaries are “participating affiliates” as further discussed in Item 10.

Our business was established in 2001 in connection with the launch of the first Fund. Today, Aetos Capital Real Estate and its affiliates have offices in Tokyo, Hong Kong, and New York. The firm’s sole principal owner is Scott M. Kelley. Aetos Capital Real Estate is a Delaware limited partnership. Its sole general partner is Aetos Capital Real Estate, LLC, which is also principally owned by Scott M. Kelley.

For reasons relating to our historical business structure, we originally registered in the name of ACA II Advisors, LLC (the “Original Registrant”). Each of our affiliated investment advisory and general partner entities were designated as “relying advisors” of the Original Registrant in accordance with the position expressed by the SEC in its no-action letter issued to the American Bar Association on January 18, 2012. Following a reorganization effectuated in August 2013, Aetos Capital Real Estate remained the sole member (or general partner) of each of our affiliated investment advisory entities, ceased to own any interest in other lines of business that did not relate to real estate investment management and changed its name from Aetos Capital, LP. Accordingly, although Aetos Capital Real Estate is listed as a “relying advisor” on our Form ADV, it is the legal parent of our affiliated advisors and the legal employer of our advisory personnel (other than personnel employed directly by a participating affiliate), and would have been the Form ADV registrant if the reorganization had occurred prior to the Original Registrant’s filing. Each of our related advisory entities intends to conduct its activities in accordance with the U.S. Investment Advisers Act of 1940, as amended, and the rules thereunder (the “Advisers Act”) and any employee acting on behalf of a Client is subject to the supervision and control of Aetos Capital Real Estate. Throughout our Form ADV, references to “Aetos Capital Real Estate”, “ACRE”, “we”, “us” or “our” include our affiliated advisory entities and the advisory personnel associated with them.

### **New York**

ACRE’s senior management team is based in New York. The senior management team oversees all of the operations of the Aetos Japan and ACRE China teams described below, and is responsible for all investment recommendations to Clients. In addition, our New York office oversees (i) investor relations and fundraising (including identifying prospective investors and communicating with existing and prospective investors regarding the Funds’ investment activities and performance), (ii) investment evaluation and monitoring, (iii) fund finance and reporting and (iv) tax, legal and regulatory matters. In collaboration with our participating affiliates, the New York team is also responsible for identifying opportunities to enhance Client performance and determining strategies with respect to holding periods and disposition timing.

### **Japan**

Our subsidiary Aetos Japan, LLC (“Aetos Japan”) employs real estate professionals focused on investments in Japan. Aetos Japan provides a full range of acquisition and asset management services and collaborates with ACRE with regard to (1) the sourcing, investigation and evaluation of potential investment opportunities that may be within the scope of a particular Client’s investment strategy and objectives, (2) performing due diligence, advising ACRE as to the condition of potential acquisitions and making pricing recommendations, (3) obtaining debt

financing for investments and (4) investment structuring, negotiation and execution. Following the acquisition of an investment, Aetos Japan is integrally involved in developing and executing a business plan for the ongoing management of the investment, consistent with the overall strategy determined by ACRE. Aetos Japan is generally responsible for day-to-day asset management of Client investments in Japan (including leasing and asset repositioning), consistent with the agreed upon business plans, while at all times ACRE's senior management oversees investment strategy and decisions.

### **China**

Our subsidiary Aetos Capital Asia Limited ("**ACRE China**") employs real estate professionals focused on investments in Greater China. ACRE China provides a full range of acquisition and asset management services, including investment sourcing and due diligence, evaluation and selection of prospective joint venture partners, assistance with financing arrangements and investment structuring, negotiation and execution. With respect to each prospective investment, ACRE China discusses its analysis and conclusions with ACRE's senior management in New York. After a Client consummates an investment in China, ACRE China is integrally involved in monitoring activities and performs various asset management services such as finance, accounting and oversight services for joint venture and project companies.

### **Customized Advisory Services**

Our advisory services are tailored to meet the specific investment objectives and requirements set forth in the governing documents applicable to each Client (e.g., partnership agreement, articles of association, investment management agreement). The investment objective may be described in terms of targeting a portfolio of investment opportunities that are expected at the time of underwriting to generate returns within a range typically expected of other "opportunistic", "value-added" or "core" real estate investments, as the case may be. The governing documents of each Client typically define a strategy and impose certain investment restrictions such as the type and geographic location of investments, typical size, maximum leverage and the percentage of a Client's assets that may be invested in a single asset. Any such restrictions apply to each Client as a whole. We do not provide investment advice to underlying investors in the Funds based on their individual needs nor do we participate in wrap fee programs. However, we may enter into side letter agreements with certain investors in a Fund which expand or otherwise modify such investors' rights or obligations under the operating agreements for such Fund subject to its governing documents and applicable law.

### **Assets Under Management**

As of December 31, 2022, Aetos Capital Real Estate had approximately \$233,451,902 of assets under management, all of which was managed on a discretionary basis. Such amounts, and the amounts stated in Item 5 of Part 1, exclude debt incurred by Client subsidiaries in connection with portfolio acquisitions or other activity at the project company level if such activity is not consolidated within the financial statements of the relevant Client pursuant to U.S. generally accepted accounting principles. Based on estimated fair market values, as determined by Aetos Capital Real Estate, we had approximately \$233,451,902 of total assets under management as of December 31, 2022 with respect to which we provided investment management services.

\* \* \*

## **ITEM 5**

### **FEES AND COMPENSATION**

ACRE's fee and compensation arrangements vary depending on the particular Client. A summary of our typical fees and compensation is provided below. The specific arrangement for each Client is described in its offering materials and governing documents (including a private placement memorandum, partnership agreement, articles of association and investment management agreement, as applicable). Although the fees charged to a Fund are generally not negotiable, we may enter into side letters with certain underlying investors that effectively modify the fees and compensation borne by such investors. In addition, certain underlying investors, generally including related persons and/or current or former employees or partners of ACRE or its affiliates, are not subject to management fees or performance based compensation in connection with their investment in the Funds (however, such persons are required to bear their pro rata share of certain Fund expenses).

Subject to any applicable provisions in our Clients' governing documents, we may offer certain persons the ability to co-invest in particular investment opportunities alongside one or more Clients. The compensation payable to us in such cases may differ from the compensation we receive from other Clients that participate in the same investment.

The fees and compensation described below are independent of any proceeds we may receive as an investor in a particular Client.

#### **Management Fees**

For performing investment management services, including Fund-level finance, accounting and investor relations services, our investment advisory subsidiaries receive a management fee from each Fund at an annualized rate not exceeding 2.0%. The management fee is paid quarterly in advance and is generally paid by way of (i) drawdowns of the unfunded commitments of underlying investors in the relevant Fund, (ii) deductions from investment proceeds or other cash held by the relevant Fund or (iii) borrowings under the relevant Fund's credit facilities, if applicable. For separate accounts, management fees may be collected in a different manner as agreed upon with each Client (for example, a management fee may be charged on the gross acquisition cost or on current value of an underlying investment).

The management fee rate typically varies during the life of a Fund. During a Fund's investment period (i.e., the period during which we may call capital from underlying investors for new investments), the fee is calculated based on the amount of capital commitments made to such Fund regardless of whether such capital has been invested and without any assurance as to if or when capital will ultimately be invested. Following the expiration of a Fund's investment period, the fee is typically calculated based on the capital that remains invested as of each payment date or the fair value of remaining investments. To the extent that the fees we receive depend upon our determination of the current market value of Client assets, there is an inherent conflict of interest because higher values result in additional fees. To mitigate such conflict, we have developed detailed valuation procedures that are tested as part of the annual third-party audit of the Fund financial statements.



### **Carried Interest**

With respect to each Fund, our related entity serving as its general partner or preferred shareholder is typically entitled to receive a performance-based distribution (“Carried Interest”) of up to 20% of net profits realized upon the disposition of an investment, after Fund investors have received a return of capital with respect to such investment and an agreed-upon internal rate of return.

A Fund’s governing documents typically provide that we are required to repay any Carried Interest we have received to the extent (i) underlying investors have not received a return of, plus a specified return on, their capital contributions and (ii) the amount of Carried Interest we received exceeds a specified percentage (typically 20%) of the aggregate net profits distributed to underlying investors during the life of the relevant Fund. Additionally, a portion of any Carried Interest distributions may be required to be placed in a reserve account and subsequently returned to the Fund in the event Fund investors have not received the amount due to them as of the Fund’s dissolution or another point in time.

Carried Interest distributions may occur each time an investment is realized or on a different basis as set forth in the governing documents of each Client. As is the case with management fees, certain underlying investors in a Client including our personnel may pay a reduced (or no) Carried Interest. Where applicable, Carried Interest payments are made in compliance with Rule 205-3 under the Advisers Act, which permits the payment of performance-based compensation by certain eligible investors.

### **Other Fees**

In addition to the compensation we receive for performing investment management services, Aetos Japan and ACRE China are frequently retained by Clients and/or their portfolio companies to provide asset management services such as property-level finance and accounting services and the hiring and oversight of leasing and property management agents that would otherwise be performed by an unaffiliated third party. Such fees are intended to be charged at customary market rates, are subject to restrictions set forth in the governing documents of each Client and may be based on the acquisition cost of an investment. In addition, although ACRE is responsible for its own general operating and overhead costs, including salaries, benefits and rent, in certain instances the costs of internal staff time is charged to a Client to the extent an employee is seconded to perform finance, accounting or strategic functions in respect of one or more portfolio investments (but not Fund-level services which are covered by the investment management fee).

In certain cases, the aggregate amount of asset management fees payable to ACRE and its participating affiliates may be subject to a cap equal to our actual costs of providing the services plus a specified margin. Please refer to Item 10 for additional information regarding our use of affiliated entities for asset management services. It should be noted that our ability to earn asset management fees from Clients may incentivize us to perform more services than we might otherwise perform, or incur more costs in performing such services. The fact that the fees charged for such services have been subject to a cap based on our cost of providing them, and that we periodically report the amount of fees paid by Clients to our affiliates, is expected to mitigate this conflict.

ACRE and its participating affiliates may occasionally receive investment-related fees such as sourcing, acquisition, structuring, disposition, monitoring, financing, underwriting, break-up or similar fees from a Client, a portfolio company or a third party which are directly related to the activities of a particular Client. However, 100% of such fees received by us, net of reimbursable expenses, are typically required by a Client's governing documents to offset future management fees thereby mitigating potential conflicts of interest from the opportunity to earn additional fees. No commissions, placement fees or other remuneration is paid by a Client to ACRE or to any of our employees in connection with the offering and/or sale of interests in such Client.

### **Expenses**

Independent of the fees and compensation payable to ACRE or its affiliates, each Client bears its own organizational and operating expenses subject to any limitations set forth in its governing documents.

Organizational expenses typically include legal fees (including those incurred in drafting and negotiating the constituent documents of each Client and any side letters), accounting fees and expenses, printing costs, filing fees and expenses relating to the formation of entities and expenses incurred from marketing and offering interests in a Client to underlying investors (including transportation, meal and lodging expenses of ACRE personnel). Underlying investors usually impose a cap on the amount of organizational expenses that a Client may bear and amounts in excess of such cap are borne directly or indirectly by ACRE. In the event any placement fees are charged to a Client, they are typically required to be offset against management fees so that they are ultimately borne by ACRE.

Operating expenses generally include all fees, costs and expenses associated with maintaining the operations of the relevant Client and its acquisition, holding, disposition, financing and refinancing of investments, including transactions that are pursued but not ultimately consummated, such as the costs, fees and expenses associated with:

- research services and market data subscriptions;
- due diligence and closing of transactions;
- lenders, investment banks and other financing sources;
- outside counsel, auditor, tax advisor and consultant services;
- joint venture and operating partners (which may include a management or performance fee component);
- travel and entertainment;
- appraisal or other valuation services;
- asset management (including services performed by our affiliates);
- property management and leasing agents;
- real estate brokers;
- corporate service providers (e.g., registrar, transfer agent, registered office services);
- currency hedging;
- withholding taxes, transfer taxes and other taxes, fees and governmental charges;
- insurance and indemnification obligations;
- the preparation and distribution of financial statements and periodic reports;
- the preparation and filing of tax returns;

- organizing and maintaining any subsidiaries or related vehicles;
- regulatory filings;
- custodian and bank services;
- litigation, tax audits or certain governmental investigations involving a Client's activities;
- advisory committee participation and meetings of underlying investors;
- liquidation of investments and entities;
- fund-level leverage; and
- allocable software or other technology expenses.

The above list does not include every possible expense a Fund may incur and not all Clients will bear all of the expenses described above. Generally, each Client will pay those fees, costs and expenses that in our good faith judgment are incurred by or arise out of the operation and activities of such Client. The offering materials and governing documents for each Client, which prospective and existing investors are encouraged to review, may provide additional details or establish limitations on the expenses to be borne by such Client. In many cases, investment-specific expenses are paid from operational income. In addition, Client expenses may be paid by ACRE in the first instance and subsequently reimbursed by the relevant Client.

Any expenses common to one or more of the Funds or investments by the Funds or to any other accounts managed by ACRE generally are allocated among such entities or investments on a basis that we believe is fair and equitable, taking into consideration relevant facts such as the relative size of each Fund (if it affected the amount of expense incurred) and the particular circumstances that caused the expense to be incurred. In some cases shared expenses may be paid by a single Client which is subsequently reimbursed by other Clients for their appropriate share.

### **Prepayment of Fees**

As indicated above, management fees are typically charged quarterly in advance. In some cases, a Client may have the right to terminate an investment management agreement with us. Such termination generally requires a notice of three calendar months or longer. In the event an investment management agreement is validly terminated in accordance with its terms, the final installment of management fees would be charged only through the date of termination. In light of the notice period for termination we do not contemplate that a Client would be entitled to a refund of management fees as a result of termination. However, in the event we have received management fees exceeding the amount of accrued fees through the date of termination such excess amount would be credited to the relevant Client in accordance with its governing documents and applicable law. In addition, as discussed above, we may receive Carried Interest compensation that subsequently is required to be returned to a Client due to changes in the actual or expected disposition value of remaining investments.

\* \* \*

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As discussed in Item 5, in addition to receiving an asset-based investment management fee, one or more of our related persons serving as the general partner of a Client or in a similar capacity may receive Carried Interest based on the performance of such Client. Such compensation is generally payable at the time of the disposition of an investment, or all of the Client's investments, and after one or more predetermined performance thresholds have been achieved. Any such compensation arrangement is structured to comply with applicable law, including Section 205 of the Advisers Act. The potential to receive Carried Interest payments may create an incentive for us to make investment decisions that are riskier or more speculative than would be made under a different fee arrangement, although our side-by-side commitment of capital to a Client may reduce this incentive.

To the extent an investment is suitable for multiple active Funds or other Clients, it is allocated in a fair and equitable manner pursuant to a methodology that is agreed upon in advance between Aetos Capital Real Estate and the relevant Clients. To date, situations in which conflicts of interest could be expected to arise by virtue of investment allocation decisions have been limited either because our Clients have not had substantial overlap between the time periods during which they were actively investing or their underlying investors agreed upon a pre-determined allocation formula.

Nevertheless, certain Clients have and may have in the future varying rates and structures of fees and performance-based compensation and an incentive may arise for us to disproportionately allocate time or services to Clients effectively paying a higher rate of compensation. Each Client's governing documents set forth specific provisions designed to ensure that all investors are treated fairly and to prevent such potential conflict from unduly influencing the allocation of time, services or investment opportunities among Clients, including but not limited to provisions restricting our ability to organize successor Funds with similar strategies while current Funds are actively investing.

In general, we work on an exclusive basis for the particular Fund that has an active investment period. There may be instances in which we determine that an investment opportunity that would otherwise be offered to a Fund is not suitable (or is not of a suitable size) for such Fund. In such event, the investment opportunity may be offered to other Clients in whole or in part, as appropriate under the circumstances. In addition, we may offer co-investment opportunities to certain underlying investors in the Funds or to other third parties if we determine that, for diversification or other reasons, it may not be prudent for existing Funds or Clients to invest the entire amount necessary to fund an investment. Such co-investment opportunities, if offered, would be subject to any relevant agreements or restrictions set forth in the governing documents of our Clients (typically we have a high degree of discretion with respect to the offering of co-investment opportunities).

Investors and prospective investors should refer to the private placement memorandum and governing documents of the relevant Client for a detailed description of the fees that will be borne by such Client. We may, in our discretion, waive or reduce the carried interest or management fees payable with respect to any underlying investor, including without limitation investors that are affiliated with Aetos Capital Real Estate as employees or in another capacity.

## **ITEM 7 TYPES OF CLIENTS**

Our Clients are primarily privately offered pooled investment vehicles (commonly characterized as private equity real estate funds) and occasionally a special purpose vehicle established as a separate account.

Underlying investors have included, without limitation, public and corporate pension plans, sovereign wealth funds, endowments, foundations, high net worth individuals or family offices and other institutions.

Based on the ownership of the investment vehicles described above and the manner of offering of their securities, such vehicles are exempt from registration under the U.S. Investment Company Act of 1940, as amended (the “1940 Act”) and therefore generally are not subject to its provisions other than provisions relating to such exemption.

Interests in the investment funds and other vehicles described in our Form ADV have not been, and are not, available to the general public. Generally such interests have been available for purchase only by investors who are “accredited investors” as defined in Regulation D of the U.S. Securities Act of 1933, as amended, and in the case of most Clients, “qualified purchasers” for purposes of Section 3(c)(7) of the 1940 Act.

With respect to Clients that are investment funds, there is typically a minimum capital commitment from each underlying investor, such as \$5,000,000 (or substantially less in the case of certain affiliated co-investment vehicles). However, a Fund’s offering documents typically provide that the Fund may accept lesser commitments in our discretion.

\* \* \*

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### **Methods of Analysis; Investment Strategies**

The investment strategy of the Funds generally has been to make opportunistic investments in Asian real estate with a focus on distressed, value-add investing, principally in Japan and Greater China. As further discussed in the offering documents of each Fund, investments may take many forms including without limitation the acquisition of: (i) individual real estate assets and portfolios of real estate assets, which may be from distressed owners, their lenders and corporations undergoing restructuring, (ii) real estate-related loans or other debt instruments owned by financial institutions, (iii) equity, debt or other interests in distressed operating companies with substantial real estate value and (iv) joint venture real estate developments. Investments may be executed through a variety of structures and may be made across a variety of property types including office, residential, hospitality, retail, industrial and other real estate asset classes which we believe offer compelling risk-adjusted returns.

To date, in Japan, the Funds have invested primarily in real estate assets and real estate-related companies which Aetos Capital Real Estate believed to be fundamentally mispriced in the market due to the distressed nature of the assets and/or provide opportunities to add value through active asset management strategies. In China, the Funds have invested primarily in for-sale residential and mixed-use development joint ventures in Tier II and III cities and a budget hotel company. Certain Funds also invested in several real estate assets in South Korea.

Each Fund provided offering documents to prospective investors prior to closing containing the following information (or similar information) concerning Aetos Capital Real Estate's methods of analysis and the risks associated with an investment in a Fund. In general, ACRE applies a disciplined approach to sourcing, underwriting, pricing, acquiring, managing and disposing investments, including up-front analysis of the ability to add value through active asset management. By utilizing an integrated approach in which the disposition strategy is an integral part of investment and pricing decisions, Aetos Capital Real Estate seeks to mitigate risks while targeting attractive returns.

Key elements of the Aetos Capital Real Estate investment process are as follows:

#### *Sourcing*

Our sourcing efforts are often focused on transactions that can be negotiated on an exclusive or limited competition basis. Aetos Japan's Tokyo-based team seeks investments in Japan through a network of relationships in the real estate community including with banks, other lenders and financial institutions, servicers, brokers, bankruptcy system participants, securities firms, corporations and other potential sources of investment opportunities. Similarly, ACRE China seeks investment opportunities through its relationships with national and regional real estate developers and real estate operating companies as well as financial institutions and other industry participants. In other regional markets, including South Korea, Aetos Capital Real Estate draws on relationships with potential local partners while also seeking opportunities through global relationships with international corporations and financial institutions.

### *Disciplined Underwriting Methodology*

Aetos Capital Real Estate follows a disciplined and thorough approach to underwriting deals that we have continued to refine since the launch of the first Fund in 2002. We perform rigorous due diligence with respect to each prospective investment, conservatively projecting future cash flow proceeds and analyzing certain possible downside scenarios before finalizing pricing or investment decisions. Our due diligence includes detailed studies of the local market and sub- markets, competitive properties, comparable sales and leases.

### *Pricing and Investment Decisions*

In determining pricing recommendations and making investment decisions, Aetos Capital Real Estate draws on the experience of its senior management as well as the senior management of Aetos Japan and ACRE China. Senior professionals of Aetos Japan and ACRE China typically present detailed investment analysis and pricing recommendations to Aetos Capital Real Estate. Led by Scott M. Kelley, Aetos Capital Real Estate makes a final determination after considering a variety of factors including available financing, risk factors, current and anticipated market conditions, the potential to add value through asset management strategies and potential disposition strategies.

### *Transaction Structuring and Execution*

In each of the Funds' key markets, real estate transactions must be highly structured in order to optimize the outcome for investors. Investments are typically made through a series of offshore and onshore vehicles to optimize cash flows, tax efficiency and ultimately returns. Aetos Capital Real Estate regularly works with high quality international tax and legal professionals to design the most appropriate structure for each investment and efficiently execute on complex investment opportunities.

### *Use of Leverage*

Aetos Capital Real Estate anticipates that a prudent amount of asset-level leverage will significantly enhance cash flows and total returns to Fund investors, especially in Japan, given the arbitrage between the potential yield of local real estate assets and the average interest rates charged by lenders on such assets. We believe that our relationships with local lenders can help us obtain financing on competitive terms. In Greater China, where debt is more expensive and less readily available, we expect to employ less leverage especially in development projects (where leverage is typically low but bank debt may be available from onshore banks for actual construction). We may also utilize modest leverage in certain hard asset transactions in Greater China to enhance Fund returns, typically below a 50% loan-to-cost ratio. In Hong Kong and South Korea, we seek to optimize investor returns by utilizing appropriate levels of leverage in light of local pricing and availability.

### *Value-Added Asset Management*

Aetos Capital Real Estate seeks to acquire investments that present an opportunity for value to be enhanced through active asset management strategies. Such strategies generally involve targeted improvements to financial performance, simplifying capital structures, and changing or optimizing the use of the asset (i.e., asset repositioning) to achieve the highest and best use of a property and

improve its marketability. This value-added approach relies on the strong “on-the-ground” presence of Aetos Japan and ACRE China, subject to the supervision of Aetos Capital Real Estate.

### *Dispositions*

Aetos Capital Real Estate seeks to dispose of investments, or portions thereof, when their values have been maximized. We believe that regular evaluation of the cost-benefit of holding an investment, taking into consideration not only initial underwriting expectations but also evolving real estate fundamentals and economic conditions, is necessary to maintain an appropriate level of risk and maximize returns. Accordingly, Aetos Capital Real Estate is typically in regular contact with a broad group of local real estate agents, servicers, brokers and bankers, as well as principals such as private and institutional investors, financial corporations, real estate companies, J-REITs and limited property trusts, which helps us monitor market conditions and determine optimal exit strategies and timing as circumstances evolve.

### *Hedging*

Historically our hedging strategy has focused on minimizing exposure to exchange rate fluctuations in connection with investments in Japan and Korea. Generally, we fully hedge Japanese currency risk upon the conversion of capital contributions to Japanese Yen. Anticipated gains on the sale of investments are also hedged as they become known with reasonable certainty. The duration of hedging instruments is intended to coincide with the timing of expected realizations of investments in Japan. It has been, and is expected to continue to be, our policy not to hedge against potential currency fluctuations of the Chinese Renminbi due to the managed nature of the currency by the Chinese government. We determine appropriate hedging strategies with respect to other currencies on a case-by-case basis, with a view toward protecting equity value, and do not engage in speculative derivatives transactions.

## **Material Risks**

### *Real Estate Investment*

The investments we make on behalf of our Clients are subject to the risks inherent in the ownership of real estate assets. Real estate historically has experienced significant fluctuations and cycles in performance. The performance of our investments depends upon many factors beyond the control of Aetos Capital Real Estate or the relevant Client. These factors include, but are not limited to:

- Changes in national or local economic conditions;
- Changes in local real estate market conditions (which may relate to changes in economic conditions or local property market characteristics);
- Competition from other properties offering the same or similar services;
- Changes in interest rates and the state of the debt and equity capital markets;
- The ongoing need for capital improvements, particularly in older building structures, and the general burdens of ownership of real property;
- Changes in real estate tax rates and other operating expenses;
- Dependence on uncertain cash flow and changes in the financial condition of tenants or buyers and sellers of real estate;



- With respect to joint ventures, the risk that a partner will act improperly or negligently;
- Adverse changes in governmental rules and fiscal policies;
- Civil unrest, acts of God (including earthquakes, hurricanes and other natural disasters), acts of war or terrorism, each of which may decrease the availability of or increase the cost of insurance or result in uninsured losses;
- Compliance with environmental laws;
- Adverse changes in building, environmental, zoning and other laws;
- The impact of lawsuits which could cause a Client to incur significant expenses and divert time and attention from day-to-day operations; and
- Other factors that are beyond the control of property owners and operators.

#### *Concentration in Asia*

Our Clients invest in the Asia-Pacific region, and may invest substantially all of their assets in real estate and real estate-related investments located in Japan, Greater China and South Korea. As a result of this concentration, Clients are particularly vulnerable to adverse economic, political and market events in these jurisdictions, which could negatively impact the value of investments.

#### *Investment in Troubled Assets*

Our Clients often invest in real estate-related assets and businesses which are experiencing or are expected to experience severe financial difficulties which may never be overcome. There may be little or no near-term cash flow available from certain investments. Since Clients may make only a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few investments could severely affect the total returns of a particular Client.

#### *Illiquidity of Investments*

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

#### *Leverage*

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

interest payments on its indebtedness, the value of a Client's equity in such investment could be significantly reduced or even eliminated.

#### *Hedging Policies/Risks*

In connection with the consummation of certain investments, a Client may employ hedging techniques designed to protect against adverse movements in currency exchange or interest rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks or react to movements in currency exchange or interest rates differently than originally expected. Thus, while a Client may benefit from the use of hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Client than if it had not entered into such hedging transactions. Furthermore, Clients are exposed to counterparty risk with respect to their hedging activities, and if a counterparty fails to perform its obligations the hedge may be of no value to the Client.

#### *Risks of Acquiring Real Estate Loans and Participations*

Real estate loans acquired by a Client may be at the time of acquisition, or may become after acquisition, non-performing for a wide variety of reasons. Such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such real estate loan, replacement "takeout" financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that Aetos Capital Real Estate may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by a Client. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years or more to conclude. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

#### *Risks Relating to Joint Ventures*

Certain investments may be made through joint ventures in which a Client is not the majority owner and ACRE is not the controlling party. Accordingly, investments in joint ventures may involve risks not otherwise present. For example, there is a possibility that a co-venturer in an investment could become bankrupt or insolvent, have economic or business interests or goals that are inconsistent with the business interests of the relevant Client, or take actions contrary to the instructions, requests, policies or objectives of ACRE and the relevant Client. In addition, ACRE's ability to successfully add value to a Client investment, whether through operational improvements or otherwise, could be limited with respect to projects not controlled by ACRE and the relevant Client. In some cases, we may have limited control over the timing and development of joint venture projects following the initial investment decision.

#### *Investments in Land/New Development*

A Client may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing. To the extent that a Client invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning, building, land use and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of ACRE or the Client, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on a Client. Properties under development or properties acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development which could make such development less attractive than at the time it was commenced.

#### *Accounting Disclosure Standards*

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

#### *Currency Rates*

Fluctuations in currency rates may adversely affect the performance of Client investments. Since foreign securities or other foreign assets are likely to be purchased with and payable in currencies of foreign countries, the value of these assets measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. In some cases, regional economic conditions or governmental policies may result in exchange rates that distort the results of and returns on portfolio investments.

#### *Restrictions on Repatriation of Capital and Profits*

Some countries in which Clients may invest restrict, in varying degrees, the repatriation of capital and profits that result from foreign investment. Their capital markets, often opaque, continue to be highly regulated and will likely be subject to continuing government restrictions. There can be no assurance that Clients will be permitted to repatriate capital or profits, if any, from these countries. A Client could be adversely affected by delays in, or a refusal to grant, any required governmental

approval for repatriation of equity and debt capital, interest and dividends paid on investments held by such Client.

#### *Foreign Economic, Political, Regulatory and Social Risks*

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

#### *Ability to Enforce Legal Rights*

Because the effectiveness of the judicial systems in the countries in which a Client may invest varies, a Client may have difficulty in successfully pursuing claims in the courts of such countries, as compared to those of the United States or other developed countries. This risk is particularly relevant in the event that a Client participates in an investment through a partnership, joint venture or other entity with a third party. In the event that a third party partner breaches its contract with the Client, the countries in which Clients may invest may provide inadequate legal remedies for such breach of contract. Further, to the extent that a Client may obtain a judgment but is required to seek its enforcement in the courts of another country, there can be no assurance that such a court will enforce such a judgment.

#### *Taxation in Foreign Jurisdictions*

Clients and/or their underlying investors may be subject to income taxes or other taxes in jurisdictions outside of the United States. In addition, withholding taxes or other taxes may be imposed on Client earnings from investments in such jurisdictions. Local taxes incurred in foreign jurisdictions by Clients or entities through which they invest may not be creditable to or deductible by Clients or their underlying investors. In addition, there may be changes in tax laws, treaties and regulations, or interpretations of such laws, treaties and regulations that are adverse to a Client's interests. There can be no assurance that the structure of a Client or any of its investments will be tax-efficient for any particular investor. As always, prospective investors are urged to consult their own tax advisors with reference to their specific tax situations.

***The risks above generally apply to the Funds as well as other Clients. The Funds and other Clients are subject to additional risks than those set forth above. Please see the offering documents of the relevant investment vehicle for additional risks associated with such investment vehicle. This Brochure generally includes information about Aetos Capital Real Estate and its advisory agreements with Clients. While much of that information applies to all Clients, some information included herein applies to specific Clients only.***

\* \* \*

**ITEM 9**  
**DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose legal or disciplinary events that would be material to a client's evaluation of the adviser's business or the integrity of its management. Aetos Capital Real Estate does not have any such legal or disciplinary events to report with respect to the firm or members of its management team.

\*      \*      \*

## **ITEM 10**

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Our only business is providing real estate investment advisory services, providing real estate-related asset management services and managing various entities we have established in connection with these lines of business to serve as investment advisors, general partners and parallel investment vehicles with respect to specific Clients (and “preferred shareholders” in lieu of general partners in the case of Clients that utilize corporate structures as opposed to partnerships). These affiliated entities may be ACRE subsidiaries and/or share common owners, officers, partners, members or persons performing similar roles. Certain ACRE employees (and/or their family members and family investment vehicles) may hold an ownership interest that entitles them to an allocation of performance-based compensation earned by one or more general partner or preferred shareholder entities. In addition, ACRE and its related persons also form other entities from time to time to invest side-by-side with specific Clients in accordance with their governing documents.

Under SEC guidance, our affiliated investment advisers and general partners that have the authority to make investment decisions on behalf of Clients (whether or not subject to consent rights in favor of underlying investors) are deemed to operate, for Advisers Act registration purposes, as a single advisory business together with ACRE. In addition, as described in Item 4, Aetos Japan and ACRE China, foreign affiliates of Aetos Capital Real Estate, provide investment sourcing, execution and related services to Clients, and investment advice indirectly through Aetos Capital Real Estate. In accordance with SEC no-action letters including Uniao de Bancos de Brasileiros S.A, issued July 28, 1992, and Mercury Asset Management plc, issued April 16, 1993 (collectively, the “No-Action Letters”), such affiliates are “participating affiliates” and therefore neither Aetos Japan nor ACRE China is required to register under the Advisers Act. However, our participating affiliates are subject to compliance oversight from ACRE and their employees who participate in investment advisory activities are subject to compliance policies and procedures generally similar to those described in Item 11 of this brochure. In no event does any participating affiliate have independent discretion with respect to the investment or disposition of Client assets.

Certain inherent conflicts of interest may arise from the fact that we provide investment management services to several Clients. However, such conflicts are limited by the fact that our Clients typically do not have overlapping investment periods (except for Clients that by design invest side-by-side pro rata with other Clients in accordance with their respective governing documents). There may also be situations in which an investment opportunity is not suitable in whole or in part for a particular Client that would otherwise be entitled to exclusivity with respect to such opportunity. In such case, the opportunity may be offered to another Client (in whole or in part, as appropriate) subject to any relevant limitations to which we have agreed with Clients or underlying investors. In the relatively unusual circumstance that we have the discretion to allocate an investment opportunity among multiple Clients, we endeavor to treat all Clients in a fair and equitable manner and in any event are bound by the applicable governing documents and our fiduciary duty to all Clients.

In addition, as described in Item 5, affiliates of Aetos Capital Real Estate also provide asset management services to Clients with respect to their ownership and operation of specific real estate assets. Clients are charged additional fees in respect of such services that otherwise generally would be payable to a third party service provider and do not reduce investment management fees.

Such services and fees are disclosed in each Client's offering documents, as applicable, and may be subject to certain contractual limitations set forth in their governing agreements. In addition, asset management fees charged to our discretionary accounts are subject to periodic review by an independent advisory board comprising certain underlying investors. All asset management fees are intended to be market-based and no less favorable than those that would be negotiated with an unaffiliated third party on an arm's length basis providing comparable services in the relevant market.

\* \* \*



**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

Aetos Capital Real Estate has adopted a Code of Ethics (the “Code”) applicable to officers, principals and employees who are involved in the provision of investment advice to Clients and any other persons determined to be “access persons” within the meaning of the U.S. Investment Advisers Act of 1940 (“collectively, “Access Persons”). The Code is designed to comply with Rule 204A-1 of the Advisers Act and provides, among other things, that each Access Person must:

- maintain the very highest ethical standards, including a duty at all times to place the interests of clients first, a duty to ensure that all personal securities transactions are conducted in accordance with the Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest, and a duty not to take advantage of his or her position or engage in any fraudulent or manipulative practice with respect to a Client’s account;
- comply at all times with applicable federal and state securities laws and regulations;
- periodically report his or her beneficial interest in any personal securities holdings, accounts and transactions to the Chief Compliance Officer in accordance with Rule 204A-1 of the Advisers Act;
- report violations of the Code of Ethics to the Chief Compliance Officer; and
- receive a copy of the Code (and any amendments) and provide a written acknowledgment at least annually of his or her compliance with the Code.

A copy of the Code is available for review by Clients and prospective Clients upon request via the address or telephone number listed on the first page of this brochure. In addition to the Code, we have adopted a compliance manual and other policies and procedures (collectively, the “Compliance Manual”) with which persons associated with our firm must abide. The Code and the Compliance Manual are designed to ensure that we meet our fiduciary obligation to Clients and instill a culture of compliance within the firm.

The Compliance Manual:

- discusses the appropriate treatment of material, non-public information and other confidential information;
- establishes limitations on, and required reporting of, certain gifts and entertainment;
- requires pre-clearance of political contributions due to the potential for conflicts of interest and the requirements of so-called pay-to-play laws;
- requires pre-clearance of outside business activities such as service on boards of directors (other than in connection with our investments); and

- governs the securities trading and investing activities of Access Persons for their personal accounts (as further described below).

Access Persons who violate the Code or the Compliance Manual can be subject to sanctions including the termination of employment.

### **Participation or Interest in Client Transactions**

ACRE or its related persons often have a material personal investment in Clients, which may be as a Client's general partner, through a side-by-side investment vehicle or by virtue of their participation in performance-based compensation. Consequently, we may be considered to participate in transactions effected on behalf of Clients. When a co-investment vehicle is established to invest side-by-side with a certain Client, it invests pro rata based on remaining capital commitments, consistent with the offering and governing documents of the relevant Clients. We do not believe that such co-investments cause a conflict of interest between us and any Client but rather function to better align the interests of our underlying investors with our own interests since our own capital is being invested alongside theirs. As noted in response to Item 6, however, the possibility of receiving performance-based compensation may create an incentive for us to effectuate larger and more risky transactions than would be the case in the absence of such potential compensation. It should also be noted that we may reduce or waive the management fees and performance-based compensation payable by related persons with respect to their participation in Client investments.

Neither we nor any of our affiliates engages in principal transactions with Clients. To the extent that a Client transaction would constitute a "principal transaction" due to the ownership interest of ACRE or its personnel, ACRE would effect such transaction in compliance with Section 206(3) of the Advisers Act and the governing documents of the relevant Clients.

### **Personal Trading**

Each Access Person must pre-clear any purchase, sale or other transactions in certain securities described in the Compliance Manual (including securities offered through private placements and initial public offerings) when made through personal accounts in which such Access Person has a beneficial ownership interest. Our Chief Compliance Officer would generally deny any requested pre-clearance if (i) the relevant securities (or the securities of a related issuer) are being considered for an investment by a Client, (ii) such securities are already held by a Client, (iii) ACRE is in possession of material non-public information regarding the issuer, (iv) the Access Person is seeking to make profits based on short-term swings (e.g., "day trading") and (iv) if it may appear that the Access Person's trading could disadvantage one or more Clients in any manner. The intent of our personal trading policy is to ensure that the best interests of our Clients are always served over those of our own or individual Access Persons and to promote compliance with federal securities laws.

\* \* \*

## **ITEM 12**

### **BROKERAGE PRACTICES**

Our Clients invest primarily in privately negotiated real estate and real-estate related transactions that are not market-traded instruments and do not require the use of a securities broker-dealer. Accordingly, we do not frequently select or recommend broker-dealers for Client transactions nor do we engage in soft dollar arrangements or make commitments to any broker-dealer that would bind us to utilize that broker-dealer for future securities transactions involving Client assets. Even in the limited circumstances in which a Client may invest in market-traded instruments, these may be relatively unique assets that are only available from one or a limited number of counterparties. In all transactions we execute on behalf of Clients, we seek to purchase and sell assets in a manner that is fair and equitable to the relevant Clients and to exercise diligence and care throughout the process. However, except as discussed below, the concept of “best execution” does not typically apply to our business in the same manner that it applies to investment advisers who actively transact in market-traded securities.

Occasionally our Clients do participate in currency and interest rate hedging transactions and in such cases we use the services of a third party specialist to assist with obtaining quotes from multiple counterparties, selecting the optimal counterparty under the circumstances and negotiating standardized trading documentation with a view toward seeking best execution on behalf of Clients.

In any transaction that requires us to select a securities broker-dealer, we will do so consistent with our duty to seek the “best execution”. While this duty generally begins with obtaining the best price available for transactions of similar size and nature, net of commissions or other costs, we may take into account a number of factors, including without limitation a broker’s specialized trading expertise or knowledge of specific markets, ability to provide other services (such as financing), reliability, responsiveness, reputation and financial strength, execution capabilities with regard to transactions of similar size and complexity and operational efficiency. In light of the overall objective of each transaction, there may be circumstances in which we determine that it is in a Client’s interest to execute a transaction that does not represent the best possible price or lowest possible transaction costs.

In executing transactions that do not involve a securities broker-dealer, we may nonetheless have the opportunity to select certain counterparties (for example, the purchasers of Client assets, parties providing financing and local real estate brokers). Our transactions almost always involve unique real estate assets and as a result frequently involve special considerations when selecting counterparties. In selecting purchasers and sellers, we often pay particular attention to a prospective counterparty’s ability to quickly commit to and execute a transaction and the likelihood of the availability of financing on acceptable terms. For sale transactions, we may determine that the optimal result may be obtained through a competitive auction process open to a number of counterparties or, alternatively, negotiations with a limited number of counterparties. In selecting financing counterparties and real estate brokers, we may consider the counterparty’s ability to source other potential transactions for the same Clients (or future Clients if the decision would not adversely affect current Clients).

The notion of aggregating the purchase and sale of securities for multiple Clients typically does not apply to our business except to the extent that multiple parallel Funds invest side-by-side pursuant to the terms of their governing documents. For example, we may have a group of Funds that include

separate vehicles designated for taxable investors, tax-exempt investors and persons affiliated with ACRE, each of which would participate in transactions pro rata in accordance with capital commitments. If there are multiple transactions in a single security effectuated at multiple prices, these parallel vehicles would each participate at the average price, which could be higher or lower than the price that could have been obtained had each Client sold its securities separately. Apart from these parallel vehicles, we do not generally have multiple Clients that participate in the same transaction because at any particular time we typically have a single Fund actively investing in a particular strategy and such Fund is generally entitled to exclusivity with respect to investment opportunities that are suitable for that strategy. However, there may be instances in which we determine in accordance with such Fund's governing documents that a particular investment opportunity requires too much capital to be consummated by such Fund alone in which case we may, in our good faith discretion, offer the right to participate to one or more strategic investors or other third parties subject to any relevant agreements with the Fund's underlying investors.

\* \* \*

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

ACRE's senior investment professionals, in collaboration with our regional asset management teams, regularly review and monitor Client investments to optimize performance and monitor risk. In constructing a Client's portfolio, ACRE seeks the potential to add value to investments through active asset management (for example, investing up-front capital to reposition assets, revising leasing strategies, expense reductions, debt refinancing and operating company restructurings). Therefore, following an acquisition, our in-region asset management team creates a detailed asset plan for each asset that provides the strategic framework for meeting a Client's investment objectives (with budgets, benchmarks and relevant market information). For each asset, a designated asset manager provides ongoing guidance to third party service providers (such as property management and leasing agents), monitors financial performance, coordinates site visits and inspections (as applicable) and oversees leasing transactions and capital improvement plans and expenditures. With respect to investments that involve multiple properties, the asset-specific plans are rolled up into an investment-level business plan that addresses, among other items, projected cash flows based on the property-level asset plans, anticipated debt maturities and financing or refinancing activities, projected sales activity, major lease expirations, updated property valuations, the anticipated/recommended hold period, major capital projects and key initiatives.

Each asset manager provides periodic updates to ACRE's senior management, noting material variances from current business plans, and senior management in turn provides ongoing strategic guidance. Decisions related to capital expenditures or leasing transactions that differ materially from the approved asset plans must be reviewed for approval by a Director or Managing Director of asset management and other members of ACRE's senior management team in accordance with internal business practices.

Business plans are revisited throughout the calendar year. In addition to formal quarterly reviews, ACRE's senior management regularly considers whether investments are performing as anticipated and reviews any significant developments. At least annually, but more frequently as senior management deems appropriate, asset plans and corresponding business plans are updated to reflect revised operating strategies in the context of current market conditions, asset performance relative to original expectations, and newly identified opportunities to enhance value. The process of updating business plans involves members from various functional areas of Aetos Capital Real Estate, Aetos Japan and ACRE China, including members of the asset management, disposition, finance accounting and tax teams. Any revisions must be approved by ACRE's senior management team, led by Scott M. Kelley.

Underlying investors in our Funds receive quarterly reports which typically include a letter from Mr. Kelley, an economic overview of the relevant markets, a portfolio overview summarizing investment performance, written commentary on the status of and material developments pertaining to each Fund investment (excluding short term cash management activity), and unaudited financial statements prepared by internal accounting professionals (including a balance sheet, schedule of investments with estimated fair values, income statement, a statement of changes in investor capital/equity and a statement of cash flows). Each underlying investor also receives a statement of its capital account balance (or the value of its shares, as applicable). Underlying investors also receive annual financial statements audited by independent certified public accountants. Quarterly

reports are typically delivered within 60-90 days of the end of a fiscal quarter and annual reports are typically delivered within 90-120 days of the end of a fiscal year. An e-mail notification is sent to investors when reports, account statements or other information is available for access through a secure website, with hard copies available upon request. The reporting provided to other Clients (apart from the Funds) is discussed with underlying investors and determined on a case-by-case basis.

In addition to providing quarterly and annual reports, ACRE holds a combined annual meeting with underlying investors in the Funds to review and discuss the Funds' investment activities and market observations, and from time to time ACRE holds conference calls with investors to provide updates and market observations and respond to investor questions. An investor committee, comprising representatives of certain underlying investors in the Funds, also meets with Aetos Capital Real Estate periodically (up to 4 times per year) and prior to each meeting receives written materials regarding Fund activities and investments.

Certain investors may request additional information relating to the Funds and, to the extent such information is readily available or may be developed without unreasonable effort or expense, and does not cause any business or legal concerns with respect to confidentiality, trade secrets or applicable law and regulation, we endeavor to provide the information requested. Investors that request and receive such information will consequently possess information regarding the business and affairs of the Funds that may not be known to other investors. As a result, certain investors may be able to take actions on the basis of such information which, in the absence of such information, other investors do not take. However, it should be noted that the Funds constitute illiquid private equity investments that do not provide for periodic redemption rights.

We may also provide certain prospective investors with customized reports or other information in response to specific due diligence requests. Although we endeavor to ensure that information furnished in response to due diligence is generally consistent with the information provided to other actual and prospective investors, our response to such requests may provide a prospective investor with greater insight of our business and our current and historic portfolio of investments.

\* \* \*

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

Aetos Capital Real Estate does not receive economic benefits from non-clients as a result of providing investment advice or other advisory services. In addition, we do not compensate any person who is not a supervised person for client referrals. However, we have in the past entered, and may in the future enter, into written placement agreements consistent with applicable law (including any required disclosures) providing for the payment of fees as consideration for introducing investors to the Funds and arranging for capital commitments from them.

\* \* \*

## **ITEM 15**

### **CUSTODY**

Aetos Capital Real Estate is deemed to have custody of Client assets because we have the authority to obtain client assets, for example, by deducting investment advisory fees from a Client's account or otherwise withdrawing funds from a Client's account, and we may hold certain privately issued, non-transferable stock certificates. With respect to each Client, we satisfy our obligations under Rule 206(4)-2 of the Advisers Act by causing an annual audit to be performed in accordance with U.S. generally accepted accounting principles by an independent public accountant that is registered with the Public Company Accounting Oversight Board. Each Client distributes audited financial statements to its investors within 90-120 days of the end of its fiscal year. In addition, each Client delivers a quarterly account statement to its investors.

\* \* \*



## **ITEM 16**

### **INVESTMENT DISCRETION**

Generally, Aetos Capital Real Estate has the discretion to determine, without obtaining the consent of a Fund or its underlying investors, the particular investments to be bought and sold by such Fund and the manner in which existing investments are managed, subject to certain agreed upon investment objectives, guidelines and limitations regarding concentration and diversification, geography and type of permitted investments. A Fund's governing documents and/or an investment management agreement typically provides us with the express authority to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, financing, commitment to, monitoring of and disposition of investments, subject to any specified conditions or limitations. Although we may enter into, or cause certain Clients to enter into, sub-advisory arrangements with our participating affiliates, these arrangements do not confer investment discretion on such affiliates. In addition, from time to time we may agree to seek a Client's prior approval with respect to acquisition or disposition decisions or such other matters as may be mutually agreed.

\*       \*       \*

**ITEM 17**  
**VOTING CLIENT SECURITIES**

While Aetos Capital Real Estate has (or may be deemed to have) the authority to vote securities on behalf of certain Clients, and accordingly maintains a proxy voting policy as required by Advisers Act Rule 206(4)-6, we are rarely if ever involved in proxy voting because Client assets are generally invested in privately negotiated and owned real estate and real estate companies rather than publicly traded securities or other instruments that involve proxy voting. On occasion, Clients may invest in publicly traded securities or other interests that require a Client to vote on matters involving such Client's ownership interest in underlying portfolio companies. In the event we receive proxies in connection with such investments, whether they represent public or private securities, it is our policy to exercise the proxy vote in the best interest of the relevant Clients, taking into consideration all relevant factors, including without limitation acting in a manner that we believe will maximize economic benefits to such Clients and promote sound corporate governance by the issuer. Aetos Capital Real Estate seeks to avoid material conflicts of interest between its own interests on the one hand, and the interests of Clients and underlying investors on the other. However, if we determine that such conflicts exist, or may be perceived to exist, when voting a proxy, we will address such matters on a case-by-case basis in a fair and equitable manner, subject to legal, regulatory, contractual or other applicable considerations. If you would like additional information regarding how we have voted on specific proxies, or a copy of our proxy voting policies and procedures, please send a written request to the attention of the Chief Compliance Officer at Aetos Capital Real Estate, LP, 575 Fifth Avenue, 14th Floor, New York, NY 10017 or via e-mail to [compliance@aetoscaptalasia.com](mailto:compliance@aetoscaptalasia.com).

\* \* \*

**ITEM 18**  
**FINANCIAL INFORMATION**

Aetos Capital Real Estate (i) does not require or solicit prepayment of fees six months or more in advance, (ii) is not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to Clients and (iii) has not been the subject of a bankruptcy proceeding at any time during the past ten years.

\*      \*      \*