

**Part 2A of Form ADV: Firm Brochure**

**Item 1 Cover Page**

**KBS CAPITAL ADVISORS LLC**

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**This brochure provides information about the qualifications and business practices of KBS Capital Advisors LLC (“KBS CA”). If you have any questions about the contents of this brochure, please contact KBS CA at (949) 417-6500 or [rumipig@kbsrealty.com](mailto:rumipig@kbsrealty.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 KBS CA also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). While KBS CA is a registered investment adviser with the SEC, that registration does not imply a certain level of skill or training.**

## **Item 2 Material Changes**

- This brochure was last updated on January 14, 2013. The following summarizes only material changes made to this Brochure since the last update.
  - Item 4 has been amended to include additional disclosure clarifying the approach taken by KBS CA in determining client assets managed for purposes of this Brochure as that approach differs from the approach used to determine the amount of regulatory assets under management disclosed in Part 1 of Form ADV.
  - Item 10 has been amended to include additional financial industry affiliations.
- You may request the most recent version of this brochure by contacting Cheryl Byrne, (949) 417-6506, [cbyrne@kbsrealty.com](mailto:cbyrne@kbsrealty.com).

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#### **Item 4 Advisory Business**

- KBS Capital Advisors LLC (“KBS CA”) was formed in 2006 as the exclusive external advisor to publicly registered, non-traded real estate investment trusts which are sponsored and managed by its affiliates (collectively, the “REITs”). As of the date of this Brochure, KBS CA serves as the external advisor of KBS Real Estate Investment Trust, Inc. (“REIT I”), KBS Real Estate Investment Trust II, Inc. (“REIT II”), KBS Real Estate Investment Trust III, Inc. (“REIT III”), KBS Strategic Opportunity REIT, Inc. (“SOR”), KBS Strategic Opportunity REIT II, Inc. (“SOR II”), and KBS Legacy Partners Apartment REIT, Inc. (“Legacy”). As used in this brochure, the term “client” refers to each advisory client of KBS CA (i.e., the REITs) and not to the investors in any of the REITs.
- As external advisor to the REITs, KBS CA manages the day-to-day operations of the REITs’ portfolios of real estate properties and real estate-related assets (including real estate-related securities) and is primarily responsible for the identification and analysis of real estate properties and real estate-related investments. Generally, proposed investments must ultimately be approved by at least a majority of a REIT’s board of directors (or a majority of such REIT’s Conflicts Committee) and, as such, KBS CA generally functions in a non-discretionary capacity. However, subject to the limitations in each REIT’s charter and the oversight of its board of directors, KBS CA may exercise limited discretionary authority to make certain securities investments on behalf of the REITs. Please refer to the respective REIT’s prospectus for a further description of KBS CA’s investment authority.
- KBS CA is controlled and indirectly owned by the following four individuals:

Peter Milton Bren; Born 1933

Education: University of Southern California, Los Angeles, CA; University of California Los Angeles, Los Angeles, CA and University of Frankfurt, Frankfurt, Germany

Business Background: Koll Bren Schreiber Realty Advisors, Inc., President and Co-Chairman, 1/98 to present; KBS Realty Advisors, LLC, President and Chairman, 1/2000 to present; Bren, Inc., President, 1/92 to present.

Charles Jay Schreiber, Jr.; Born 1951

Education: University of Southern California, Los Angeles, CA 1973, B.S. - Finance

Business Background: Koll Bren Schreiber Realty Advisors, Inc., Chief Executive Officer, 1/98 to present; KBS Realty Advisors, LLC, Chief Executive Officer, 1/2000 to present; Koll Realty Advisors, Inc., Senior Vice President, 10/92 to 11/97.

Peter McMillan III; Born 1957

Education: Clark University, 1979, B.A. (with honors) – Economics; Wharton Graduate School of Business at the University of Pennsylvania, 1982 – MBA (Finance)

Business Background: Co-founder and Chief Investment Officer of Temescal Canyon Partners LP in 2013; Co-founder and Managing Partner of Willowbrook Capital Group, LLC; prior to forming Willowbrook in 2000, Executive Vice President and Chief Investment Officer of SunAmerica Investments, Inc.; before joining SunAmerica in 1989, Assistant Vice President for Aetna Life Insurance and Annuity Company.

Keith D. Hall; Born 1958

Education: California State University, Sacramento, 1981, B.A. (with honors) – Finance

Business Background: Co-founder of Willowbrook Capital Group, LLC; prior to forming Willowbrook in 2000, Managing Director at CS First Boston with responsibilities for Mezzanine Lending and Commercial Real Estate Development; prior to joining CS First Boston in 1996, Director in the Real Estate Products Group at Nomura Securities; during the 1980s, Senior Vice President in the High Yield Department of Drexel Burnham Lambert.

All four of KBS CA's principal owners are actively involved in its management and operations. The primary responsibility for the investment recommendations made by KBS CA to the REITs, including the selection of real estate properties and real estate-related investments to be recommended, and the negotiation for these investments resides with its principals, Messrs. Bren, Schreiber, Hall and McMillan.

- KBS CA provides advisory services to the REITs in accordance with the investment policies and objectives adopted by the REITs' boards of directors. Consistent with the REITs' investment objectives and strategies, the securities advisory services that KBS CA provides are limited to certain real estate-related securities. The individual needs of the investors in the REITs are not considered when making investment recommendations or providing other advisory services. Instead, KBS CA's advice is provided directly to the respective REITs and not individually to the investors in the REITs. While the majority of KBS CA's investment recommendations are approved by the REITs' boards of directors, KBS CA may exercise limited discretionary authority with respect to certain real-estate securities investments.
- In addition to managing the day-to-day operations of the REITs' portfolios of real estate properties and real estate-related assets (including real estate-related securities) and providing real estate investment recommendations to the REITs, under the terms of an advisory agreement executed with each of the REITs, KBS CA also may provide asset management, marketing, investor relations and other administrative services to the REITs.
- As of 12/31/2013, KBS CA managed client assets of approximately \$7,230,821,160 primarily on a non-discretionary basis. As of that date, KBS CA also managed assets of approximately \$332,947 on a discretionary basis. A substantial majority of the assets managed by KBS CA are invested in real estate property assets with the remainder of these assets being invested in other real estate-related investments including, but not limited to, real estate securities.
- Because the majority of client assets managed by KBS CA are invested in real estate property assets, such assets may not be included in KBS CA's calculation of regulatory assets under management provided in Part 1 of Form ADV. Therefore, the amount of client assets managed disclosed in this Brochure may be different from the amount of KBS CA's regulatory assets under management disclosed in Part 1 of Form ADV.

## **Item 5 Fees and Compensation**

KBS CA may receive from the REITs some or all of the following fees in connection with its advisory services:

- Acquisition and origination fees for services related to the selection and purchase of real estate investments, including sourcing, underwriting and negotiating the terms of real estate securities and real property investments. Such fees are typically based on a percentage of acquisition cost or, in the case of origination fees for loans, the amount funded. KBS CA does not have a set fee schedule for acquisition and origination fees, but the amount and further description of such fees is contained in the respective REIT prospectus.
- Asset management fees for investment advisory services relating to real estate properties and other real estate-related investments (including real estate securities) held by a REIT equal to a percentage of the amount actually paid or allocated to acquire (or fund) the investment (or loan), payable monthly. KBS CA does not have a set fee schedule for asset management fees, but the amount and further description of such fees is contained in the respective REIT prospectus.
- Performance-based compensation equal to a percentage of net cash flows (whether from continuing operations, net sale proceeds or otherwise), but only after investors in a REIT (i) have received a return of their net capital contributions to the REIT and (ii) a certain percentage level of annual cumulative, non-compounded return has been achieved, as set forth in the respective REIT prospectus. Furthermore, if a REIT is listed on a national exchange, upon such listing, KBS CA may receive a subordinated incentive listing fee from the REIT equal to a percentage of the amount by which (y) the REIT's adjusted market value plus distributions made exceeds (z) the aggregate capital contributed by investors plus an amount equal to a certain percentage level of an annual cumulative, non-compounded return as set forth in the respective REIT prospectus.
- Subject to certain limitations, disposition fees for services rendered in connection with the sale of real estate properties or other real estate investments equal to a percentage of the sales price of each property or other investment sold. Such disposition fees may be paid to KBS CA or one or more of its affiliates. KBS CA does not have a set fee schedule for disposition fees, but the amount and further description of such fees is contained in the respective REIT prospectus.

The use of performance-based compensation is intended to comply with the provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), relating to incentive compensation arrangements. This Rule imposes certain requirements relating to the calculation methodology for a performance fee and the imposition of certain net worth or assets under management standards for clients from whom such compensation is received.

In addition to the fees discussed above, KBS CA may be reimbursed by the REITS for some or all of the following expenses incurred in connection with providing advisory services:

- Acquisition and origination expenses to reflect the reimbursement of customary acquisition and origination expenses incurred by KBS CA in connection with the acquisition or origination of real estate properties, real estate-related loans, real estate-related debt

securities and other real estate-related investments on behalf of the REITS. Such expenses may include, without limitation: legal fees and expenses (including the fees of independent contractor in-house counsel that are not employees of KBS CA), costs of due diligence, travel and communication expenses, accounting fees and expenses and other closing costs and miscellaneous expenses.

- Subject to certain limitations as further described in the respective REIT prospectus, other operating expenses including, in some cases, KBS CA's allocable share of its overhead such as rent, employee costs, utilities and IT costs, although reimbursement for overhead is typically not expected to include costs in connection with services for which KBS CA receives an acquisition, origination or disposition fee (other than the reimbursement of travel and communication expenses).
- Subject to certain limitations as further described in the respective REIT prospectus, organizational and offering costs incurred on behalf of each REIT, if any.

KBS CA's affiliate, KBS Capital Markets Group LLC ("KBS Capital Markets"), a registered broker-dealer with the SEC, may receive selling commissions equal to a percentage of gross offering proceeds for the sale of shares in the REITs. Such selling commissions may ultimately be paid out to other participating unaffiliated broker-dealers for the sale of shares in the REITs. In addition, KBS Capital Markets also may receive a dealer manager fee equal to a percentage of gross offering proceeds as compensation for certain marketing services, a portion of which may be paid out to other participating unaffiliated broker-dealers as a marketing fee.

**The preceding discussion of fees and expenses paid by the REITs to KBS CA or its affiliates is not intended to be exhaustive. Investors in the REITs should refer to the applicable REIT prospectus for a specific discussion of the fees and expenses received by KBS CA in connection with the services it provides.**

## **Item 6 Performance-based Fees and Side-by-side Management**

- As noted in Item 5 above, KBS CA may receive performance-based compensation including, but not limited to, a subordinated participation in the net cash flows of the REITs (subject to the achievement of certain thresholds) or a subordinated listing fee to the extent the amount of the market value of a REIT's outstanding stock exceeds certain thresholds, each as further described above and in the applicable REIT prospectus.
- One or more of KBS CA's clients or the advisory clients advised by one or more of KBS CA's affiliates that invest in the same or similar asset classes may not be charged performance-based compensation. In addition, some or all of KBS CA's affiliates have the same principals and/or real estate and debt finance professionals (the "KBS Professionals") as KBS CA. Because of the different fee arrangements in place among KBS CA and its affiliates with clients investing in the same asset classes, including the receipt of performance-based compensation from some clients and not from others, there may be an incentive to favor clients that pay performance-based compensation over those that do not. This incentive could, for example, affect the decision to invest in certain real estate properties, securities or other assets for some clients and not for others if it is believed that the transaction will be profitable (or to allocate a greater portion of a limited investment opportunity to certain client accounts), or to engage in cross trades between client accounts.
- To address these conflicts, KBS CA's policies and procedures seek to provide that investment decisions are made without consideration of its economic interests, and instead are made in accordance with its fiduciary duties to all clients. It is the policy of KBS CA that investment decisions are to be made consistent with the investment objectives, guidelines, and restrictions of clients and that investments are to be allocated fairly and equitably over time among clients, taking into consideration the objectives, restrictions, investment strategy, asset allocation and benchmarks of each client. As a general matter, KBS CA and its affiliates generally do not recommend the same investment in the same asset or investment opportunity for two or more clients of KBS CA or its affiliates at the same time. Given cash constraints and the amount of time often required to "close" on certain recommended investments, KBS CA expects that determinations regarding which client will invest into a particular asset or investment opportunity will arise somewhat infrequently. Nevertheless, in accordance with its duties under the Advisers Act, the policy of the KBS CA is to allocate specific investment opportunities which may be suitable for one or more clients on a fair and equitable basis over time.
- When deciding whether to allocate an investment opportunity to the REITs or any other institutional clients advised by one of KBS CA's affiliates, the KBS Professionals, in their sole discretion, seek to determine the client for which the investment opportunity is most suitable based on the investment objectives and other criteria for each client. Some of the factors considered are: (i) the investment objectives and criteria of each client; (ii) the cash requirements of each client; (iii) the effect of the investment on the diversification of each client's portfolio; (iv) the anticipated cash flow of the property or asset to be acquired; (v) the income tax effects of the purchase on each client; (vi) the size of the investment; and (vii) the amount of funds available to each client and the length of time that such funds have been available for investment. In addition, the boards of directors of the REITs have established conflicts committees comprised of independent members of such boards of directors. Among other things, the conflicts committees are responsible for evaluating the



performance of KBS CA with respect to whether it is presenting to each respective REIT its fair share of investment opportunities. Each conflicts committee has a duty to ensure that favorable investment opportunities are not disproportionately allocated to other clients or investors managed or advised by KBS CA's affiliates and such considerations are intended to be critical factors in determining whether each REIT will renew the advisory agreement with KBS CA.

- The receipt of performance-based compensation also may incentivize KBS CA to recommend investments for and on behalf of the REITs that are riskier or more speculative than KBS CA would otherwise do if it did not receive performance-based compensation. As some of the KBS Professionals also serve as directors of the REITs, the performance-based compensation paid by the REITs to KBS CA was not the product of an arm's length negotiation with a third party.

### **Item 7 Types of Clients**

- KBS CA serves as the exclusive external advisor to publicly registered, non-traded real estate investment trusts which are sponsored and managed by its affiliates. As of the date of this brochure, KBS CA's only clients are REIT I, REIT II, REIT III, SOR, SOR II and Legacy.

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

On behalf of the REITs, KBA CA makes recommendations for investments in, and manages a diverse portfolio comprised of, real estate properties and real estate-related assets, including, but not limited to, the acquisition of commercial properties; investment in and origination of real estate-related loans such as mortgage, mezzanine, bridge and other loans; debt securities such as mortgage-backed securities and debt securities issued by other real estate companies; equity securities of real estate companies; and certain types of illiquid securities. KBA CA generally recommends investments through the acquisition of individual assets and loan originations or by acquiring portfolios of assets, other unaffiliated real estate investment trusts or real estate companies. On behalf of its clients, KBA CA expects to recommend a diverse portfolio of real estate investments by investment type, investment size and investment risk with the goal of attaining a portfolio of income-producing assets that provides attractive and/or stable returns.

KBA CA has developed a disciplined investment approach that combines the experience of the KBS Professionals with a structure that emphasizes thorough market research, stringent underwriting standards and an extensive down-side analysis of the risks of each recommended investment. In addition, for each recommended investment, KBA CA seeks to develop a well-defined exit strategy.

The following practices summarize KBA CA's investment approach:

- *Market Research* – KBA CA's investment team conducts extensive research covering the potential investment, using both real-time market data and the transactional knowledge and experience of its professional network. Investment analysis methods will include internally and externally prepared appraisals/valuations to include consideration of market conditions and asset fit in the client's portfolio, as determined by the client. Sources of information will also include KBA CA and its affiliates' evaluation of real estate markets and pricing trends often using data and analytical techniques based upon research derived from major national real estate marketing and brokerage firms.
- *Investment Discipline* – KBA CA follows a tightly-controlled and managed process to examine all elements of a potential investment. Only those investments meeting the investment criteria and objectives of the REITs will be recommended for inclusion in their respective portfolios.
- *Risk Management* – Risk management is a fundamental principle in the making of investment recommendations and the monitoring of KBA CA's clients' portfolios. KBA CA's investment professionals continuously review the performance of investments against projections and expectations and provide the necessary oversight to address issues that arise with certain recommended investments.
- *Asset Management* – In the case of real property investments, prior to the purchase of a recommended property asset, KBA CA's dedicated asset managers lead an effort to develop a business strategy for each property, including the actions to be taken to achieve the projected returns.

Like all investments, investing in real estate properties, real estate-related assets (including real estate securities), or any other type of investment, involves risk of loss that investors in the REITs

should be prepared to bear. KBA CA cannot guarantee any level of performance or that its clients or the investors in the REITs will not experience a loss.

The following are some of the material risks associated with the various real estate investments recommended by KBA CA to the REITs:

- Economic, market and regulatory changes may impact the real estate market generally and may decrease the value of the investments recommended to the REITs;
- The investment returns and cash flow associated with investments in commercial real estate properties are dependent on the ability of tenants to pay rent. To the extent that tenants default, terminate their leases or are significantly impacted by certain outside economic factors, the net income associated with such commercial real estate properties may be adversely affected;
- Competition in the market from third parties in acquiring properties or other real estate-related investments recommended by KBA CA to the REITs may reduce the profitability of such investments;
- The value of investments recommended in real estate loans or securities may be adversely affected by fluctuations in interest rates;
- The mortgage loans recommended and the value of mortgage loans underlying the mortgage securities recommended are subject to delinquency, foreclosure and loss, which could result in losses to the REITs;
- Investments recommended in subordinated loans and subordinated mortgage-backed securities may be subject to losses;
- In addition to being subject to the risks associated with mortgage loans, the commercial mortgage-backed securities recommended for investment are subject to the risks of the securitization process;
- Some or all of the investments recommended in real estate-related securities and loans may be illiquid and, thus, may be particularly vulnerable to changes in economic and other conditions;
- Prepayments can adversely affect the yields on the real estate-related investments recommended to the REITs.

In addition to the foregoing real estate-related risks, investors in the REITs may be exposed to other risks associated with certain inherent or potential conflicts of interest raised by KBA CA's ownership structure and the investment activities engaged in by its affiliates, which prospective investors in the REITs should consider before investing. These risks include, without limitation:

- KBA CA faces certain conflicts of interest with its affiliates, which are primarily owned by KBA CA's principal owners and/or certain of its key investment professionals, caused by the compensation arrangements in place with the REITs on the one hand and the clients of its affiliates on the other. Such conflicts may give KBA CA's principal owners and/or key investment professionals an incentive to favor certain client accounts over the REITs to the extent that the fee arrangements with such clients are more beneficial;
- KBA CA's affiliates sponsor or manage other investment funds and accounts, some of which have objectives that are similar to, or which overlap with, those of the REITs. As a result, the REITs and such other similar investment funds and accounts could compete for certain limited investment opportunities analyzed by KBA CA's investment professionals. To the extent that these investment opportunities are not allocated to the REITs, the performance of the REITs' investment portfolios may be adversely affected. Conversely,

the investment objectives and/or investment strategies employed by KBA CA's affiliates on behalf of certain clients could conflict with the transactions and strategies employed by KBA CA on behalf of the REITs, which may affect the prices and availability of the real estate investments in which the REITs invest.

- Some of KBA CA's principals and key investment professionals also are sponsors of and serve on the boards of directors of the REITs that it advises. As such, the advisory agreements between KBA CA and the REITs, which set out the terms of KBA CA's advisory relationship with the REITs including the fees that it receives for services provided, have not been negotiated at arm's length. In order to mitigate this conflict and other related conflicts, the boards of directors of the REITs are comprised of a majority of "independent" directors and the boards of the REITs have established conflicts committees to evaluate certain matters that are subject to potential conflicts of interest.
- KBA CA's investment professionals who provide investment advice to other investment funds and accounts face competing demands for their time which may have an adverse effect on the REITs; and
- Investors in the REITs have limited control over the policies and operations of the REITs, including any investments recommended by KBA CA and invested in by the respective REITs.

**The preceding discussion of the risks (i) associated with investments in real estate and real estate-related investments and (ii) related to KBA CA's structure and the investment activities of its affiliates is not intended to be exhaustive. Investors in the REITs should refer to the applicable REIT prospectus for a specific discussion of the risks associated with an investment in the REIT.**

### **Item 9 Disciplinary Information**

- Form ADV Part 2 requires KBS CA to disclose legal or disciplinary events involving the firm or its partners, officers, or principals that are material to a client's or prospective client's evaluation of its advisory business or the integrity of its management. At this time, KBA CA has no information to report that is applicable to this Item.

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

- KBA CA's affiliate, KBS Capital Markets, is registered as a broker-dealer with the SEC and is also a member of FINRA in such capacity. KBS Capital Markets serves as the dealer manager in connection with the offering of shares in the REITs. In this regard, KBS Capital Markets receives certain fees including selling commissions and a dealer manager fee for facilitating the sale of shares in the REITs, a portion of which may be reallocated to other unaffiliated broker-dealers whom KBS Capital Markets has authorized to participate in the offering of shares. As KBS Capital Markets is KBA CA's affiliate, prospective investors in the REITs should understand that the fees paid to KBS Capital Markets in connection with the offering of shares in the REITs have not been negotiated at arm's length. Please refer to the applicable REIT prospectus for a further discussion of these fees and KBS Capital Market's services as dealer manager.
- Two other affiliates, KBS Realty Advisors, LLC ("KBS Realty") and Koll Bren Schreiber Realty Advisors, Inc. ("Koll Bren Schreiber" and, collectively, with KBS Realty, the "Investment Adviser Affiliates"), are each registered investment advisers who provide advisory services in connection with real estate and other real estate-related investments to corporations and institutional investors including pension plans and sovereign wealth funds. The Investment Adviser Affiliates also act as investment advisers to certain commingled investment vehicles, such as limited partnerships or limited liability companies, which invest in real estate investment trusts, real estate partnerships and other real estate-related securities. The Investment Adviser Affiliates also serve as investment advisers to other real estate investment trusts. As mentioned in Item 8 above, the Investment Adviser Affiliates are primarily owned by KBS CA's principal owners and/or certain of its key investment professionals and many of the same investment professionals that conduct the advisory activities for KBS CA also perform the same or similar functions in connection with their duties in respect of the Investment Adviser Affiliates. Furthermore, the Investment Adviser Affiliates sponsor and manage other investment funds and accounts which may have the same or similar investment objectives and strategies to those of the REITs. As a result, to the extent that the accounts or investment funds managed by the Investment Adviser Affiliates have compensation arrangements in place that are more beneficial, there is a potential conflict that KBS CA's principal owners and/or key investment professionals have an incentive to favor certain higher paying client accounts over the REITs when allocating limited investment opportunities. Please refer to Items 6 and 8 above for a description of how KBS CA and its affiliates attempt to address certain conflicts raised by its ownership structure.
- Mr. McMillan, one of KBS CA's principals, is a co-owner of and serves as Chief Investment Officer of Temescal Canyon Partners LP ("Temescal"), an investment management firm formed in 2013 to manage a multi-strategy hedge fund. Although Mr. McMillan's interest in Temescal creates the potential for a conflict of interest, KBS CA believes that the potential conflict is mitigated by the fact that the investment strategy pursued and investments made by Temescal are unrelated to the strategy utilized and the investments made by KBS CA. In addition, while Mr. McMillan will carry out his responsibilities in respect of Temescal, Mr. McMillan will devote so much of his time and effort to the affairs of KBS CA as is necessary to actively participate in the business and management of KBS CA.





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

- KBS CA has adopted a code of ethics (the “Code”) that is applicable to all employees of KBS CA. The Code contains policies and procedures that, among other things:
  - Require employees to observe fiduciary duties owed to clients;
  - Prohibit employees from taking personal advantage of opportunities belonging to clients;
  - Place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to employee personal trading except for certain types of securities;
  - Impose limitations on the giving or receiving of gifts;
  - Restrict employees’ outside business activities; and
  - Prohibit disclosure of confidential information relating to KBS CA, its clients and their investment activity.

In addition, the Code defines material, non-public information, prohibits the use of such information for client or personal gain and sets forth the responsibilities of all employees relative to insider trading. All principals and employees of KBS CA must agree to comply with the Code upon employment and must certify annually that they have read and understand the Code and have complied with it. A copy of the Code will be provided to any client or prospective client upon request.

- Pursuant to the Code, as a general matter, KBS CA employees may not trade in any security for their own accounts until all active client purchases and sales of the same securities have taken place.
- KBS CA does not, as a general practice, buy or sell securities for its own investment account, although the principals and employees of KBS CA may do so, either individually or as a group (such as through an investment partnership). KBS CA does not prohibit any of its principals or employees from purchasing or selling for their own accounts securities that may be recommended or held by the REITs or from taking investment positions that are different from or opposite to investments recommended or held by the REITs. In addition, subject to certain restrictions, KBS CA employees may invest in the REITs themselves. To address potential conflicts of interest posed by the aforementioned personal trading activity, KBS CA maintains the Code, as described above. The Code requires KBS CA’s principals or employees who have access to client recommendations or client positions (“access persons”) to periodically report their personal securities transactions and holdings to its Chief Compliance Officer (or his/her designee). In this way, KBS CA is able to monitor and identify personal trading activity that might present a conflict of interest.

## **Item 12 Brokerage Practices**

- As described in Item 4, a substantial majority of the REITs' assets are invested in real properties and other real estate assets and, as such, the brokerage practice issues addressed in this Item do not apply to the majority of KBS CA's investment activities. However, subject to the limitations in each REIT's charter and the oversight of each REIT's board of directors, KBS CA may, on a limited basis, exercise discretionary authority to make certain investments in securities on behalf of the REITs and in connection therewith to select the broker-dealers through whom it executes securities transactions.
- In the event that KBS CA recommends or trades in securities on behalf of the REITs, such securities are typically not publicly traded and/or are purchased from dealer inventories. Therefore, while KBS CA often has discretion to choose brokers and/or dealers through whom transactions for clients may be executed, the broker-dealer selection process is not the same as it would be for exchange-traded securities. Nevertheless, KBS CA seeks to obtain quality execution for securities transactions at favorable prices and at competitive rates or spreads through brokers and dealers who in KBS CA's opinion are financially responsible.
- With respect to recommended investments in real estate properties and other non-securities investments in real estate, the REITs may pay commissions to real estate brokers/dealers for purchases, leasing, and sales of real estate assets.
- KBS CA has no agreements with any brokers and/or dealers it may recommend to its clients for a fixed dollar commission commitment (or other "soft dollar" arrangement) in return for research services from a third-party research provider.
- KBS CA has no arrangements in place whereby it pays brokers and/or dealers that it recommends to provide executions services for the REITs in exchange for soliciting and/or placing investors for investment in the REITs.
- KBS CA does not enter into "directed brokerage" arrangements with its clients.
- In the limited circumstances in which KBS CA selects (or recommends) broker-dealers to execute securities transactions, it generally does not aggregate orders for the purchase or sale of securities across multiple client accounts.

**Please refer to the respective REIT prospectus for a more detailed description of the fees and commissions paid by the REITs to the securities and real estate brokers used in connection with their investment activities.**

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

- KBS CA has formed an investment committee comprised of its principals and certain key investment professionals. Among other things, the investment committee primarily is responsible for reviewing the performance of investments recommended for the REITs against projections and for determining conformity of the investment recommendations with the investment policies and objectives for the REITs. The investment committee will review and consider the investment portfolios of each REIT no less frequently than quarterly. More frequent reviews of the REITs' portfolios may be undertaken by KBS CA's other investment professionals as deemed appropriate, taking into account revisions in client objectives, material movement in the market and other like and unlike factors.

KBS CA prepares periodic detailed reports covering each of the REIT's investment portfolios which are provided to the respective REIT's board of directors. In addition, because the REITs' shares are registered with the SEC, the following are examples of reports covering the REITs' operations which are available to the public:

1. 10-Ks on an annual basis.
2. 10-Qs quarterly.
3. Supplements to a REIT's prospectus during the offering period for activity within the REIT (acquisitions, dispositions, refinancings, etc.).
4. Post Effective Amendments to a REIT's prospectus filed approximately every 90 days during the offering period to update the prospectus.
5. 8-Ks filed for material activity affecting the REIT.
6. Updates to a REIT's prospectus approximately every 12 months during the offering period.

#### **Item 14 Client Referrals and Other Compensation**

- As described above in Item 10, KBS CA's affiliate, KBS Capital Markets, a registered broker-dealer with the SEC and a member of FINRA in such capacity, serves as the dealer manager in connection with the offering of shares of the REITs. In connection with these services, KBS Capital Markets receives certain fees including selling commissions and a dealer manager fee as further described in Item 6. Some or all of these fees may be reallocated to other unaffiliated broker-dealers whom KBS Capital Markets has authorized to participate in the offering of shares.
- KBS CA does not receive an economic benefit from someone other than a client for providing advisory services.

## **Item 15 Custody**

- Registered investment advisers with actual or constructive custody or possession of client funds or securities are required to comply with Rule 206(4)-2 under the Advisers Act (the “custody rule”). Although KBS CA generally does not have custody over client securities, KBS CA may have technical custody of certain types of privately-offered securities (e.g., interests in limited partnerships, limited liability companies or other private companies) by maintaining physical possession of documentation evidencing such securities. In addition, KBS CA is deemed to have constructive custody over its clients’ cash by virtue of the fact that either KBS CA or certain of its supervised persons or affiliates have the ability to transfer funds or make withdrawals on clients’ behalf. Even though KBS CA may have custody over certain privately-offered client securities and is deemed to have custody over client cash, it is exempt from many of the provisions of the custody rule because the REITs are audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent accountant and the audited financial statements are distributed to investors in the REITs within 120 days of the end of each REIT’s fiscal year.
- Except as is permitted by the custody rule, client securities are held in separate accounts in the client’s name with registered broker-dealers and/or banks (i.e., qualified custodians) and all client cash is maintained in separate accounts with FDIC-insured banks.
- All REIT clients should receive, at least quarterly, account statements from the broker-dealer, bank, or other qualified custodian that maintains its cash and/or securities. Clients are urged to compare the statements received from their custodians with any statements they may receive from KBS CA. Statements that KBS CA provides clients may vary from the statements received from custodians due to differences in the timing on posting transactions, accounting procedures, or other reasons.

## **Item 16 Investment Discretion**

- As described above in Item 4, KBS CA serves as the external advisor to the REITs. In this capacity, KBS CA manages the day-to-day operations of the REITs' portfolios of real estate properties and real estate-related assets (including real estate-related securities) and is primarily responsible for the identification and analysis of real estate properties and real estate-related investments. Generally, proposed investments must ultimately be approved by at least a majority of a REIT's board of directors (or a majority of such REIT's Conflicts Committee) and, as such, KBS CA generally functions in a non-discretionary capacity. However, subject to the limitations in a REIT's charter and the oversight of its board of directors, KBS CA may exercise limited discretionary authority to make certain securities investments on behalf of the REITs. Please refer to the respective REIT prospectus for a further description of KBS CA's investment authority.
- Prior to providing any advisory services, KBS CA executed an advisory agreement with each of the REITs that sets forth the parameters and guidelines under which KBS CA will perform its advisory function. As certain of KBS CA's principals are also sponsors of the REITs and may serve on the REITs' boards of directors, the advisory agreements have not been negotiated at arm's length. Under the terms of the advisory agreements executed with each of the REITs, KBS CA must use its best efforts to recommend and make investments for the REITs consistent their investment objectives and policies as adopted by the boards of directors. The advisory agreements have a one-year term but may be renewed for an unlimited number of successive one year periods upon the mutual consent of KBS CA and the respective REIT. As mentioned in Item 6, the conflicts committees of the respective REITs are responsible for determining whether each REIT will renew the advisory agreement with KBS CA, considering a range of factors including, but not limited to, whether KBS CA has presented to each respective REIT its fair share of investment opportunities.
- The limitations on KBS CA's investment discretion in the form of investment guidelines or other parameters are stated in the respective REIT's charter, the advisory agreement, the prospectus or the REIT's other governing documents, as applicable.

### **Item 17 Voting Client Securities**

- Due to the nature of the securities investments made by the REITs, it is expected that proxy votes will be solicited in connection with the REITs' securities holdings on a very infrequent basis. In the unusual circumstance that proxies are solicited in connection with securities held by the REITs, such proxies should be received by the REITs directly from the custodian or a transfer agent.
- KBS CA generally does not have authority to vote securities on behalf of the REITs, however, the REITs may consult with KBS CA about any particular proxy solicitation at their discretion. In the unlikely event that proxies are solicited in connection with securities held by the REITs, KBS CA has adopted a proxy voting policy, as required by the Advisers Act, that is reasonably designed to ensure that KBS CA votes proxies in the best interest of its clients, describes its proxy voting procedures, and informs its clients how they may obtain information about how KBS CA voted their proxies.
- For more information regarding this policy or how proxies are voted for a particular REIT, if any, please contact Rachel Umipig at [rumipig@kbsrealty.com](mailto:rumipig@kbsrealty.com).

## **Item 18 Financial Information**

- KBS CA is not aware of any financial condition that could impair its ability to meet its contractual commitments to the REITs.