

**Form ADV Part 2A — March 31, 2015**



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**Item 1 – Cover Page**

Kairos Investment Management Company, LLC primarily conducts business as Redwood-Kairos Real Estate Partners (“Redwood-Kairos”). This brochure provides information about the qualifications and business practices of Redwood-Kairos. If you have any questions about the contents of this brochure, please contact us at [investorreporting@redwoodre.com](mailto:investorreporting@redwoodre.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.

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

Redwood-Kairos is a registered investment adviser. Registration as a registered investment adviser does not imply that Redwood-Kairos or any of the principals or employees of Redwood-Kairos possess any level of skill or training in investment management advisory or any other business.

This brochure was compiled to satisfy a regulatory requirement and is not an attempt to advertise.

## **Item 2 – Material Changes**

This brochure was prepared for Redwood-Kairos' initial registration with the Securities and Exchange Commission. There have been no amendments and no material changes.

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## **Item 4 – Advisory Business**

Redwood-Kairos is a private real estate investment management advisory company headquartered in Rancho Santa Margarita, California, majority-owned by CJPC, LLC. CJPC, LLC is owned by Chang Family Partners, Limited Partnership and Solid Rock Commercial, LLC. Mr. Carl Chang (Chief Executive Officer) founded Redwood-Kairos in 2006 and leads the day-to-day operations of the firm along with Jonathan Needell (Chief Investment Officer) and other senior executives.

The Redwood-Kairos' investment team averages approximately 20 years of real estate experience across disciplines including acquisitions, asset management, property management, development, and construction. The investment team's expertise is concentrated on value-based investing throughout the capital structure, including fee-owned real estate; general partner, joint venture, senior or preferred equity; mezzanine loans; and subordinate debt. Redwood-Kairos' investment team has extensive experience in grocery and pharmacy anchored and convenience retail projects, medical offices, industrial buildings, multifamily investments (including student-housing), and commercial mortgage backed securities or CMBS bonds collateralized by commercial and multifamily properties in the United States.

References herein to Redwood-Kairos may include, as the context requires, various entities controlled by Redwood-Kairos or its partners, and entities in which Redwood-Kairos provides investment management advisory services, such as its relying advisers.

Redwood-Kairos provides investment management advisory services exclusively to pooled private investment vehicles ("Funds" or "Fund") most commonly structured as limited partnerships or limited liability companies. Redwood-Kairos does not offer advisory services to individual investors or limited partners ("Investors") in the Funds ("Clients" or "Client").

Redwood-Kairos provides investment management advisory services related to the Funds' investments in real estate related equity and debt investments ("Investment" or "Investments"). Investments of the Funds include (i) preferred equity, structured debt, mezzanine debt, joint venture equity, and note purchases; (ii) office, retail, multi-family, industrial, and mixed-use properties; (iii) note and mortgage assets; (iv) loans secured by office, retail, multi-family, industrial, and mixed-use properties; (v) commercial mortgaged-backed securities; (vi) interests in mortgage loans secured by commercial properties (which interests consist of mortgages, related-mortgage notes, and other loan-related documentation); (vii) interests in real estate mortgage investment conduits; (viii) real estate interests in commercial REO properties, represented by deeds in lieu of foreclosure and other instruments; (ix) mortgage pass through certificates; and (x) debt instruments collateralized by commercial mortgages; (xi) other assets included in the governing documents of each Fund. The advisory services provided by Redwood-Kairos are limited to the types of Investments described herein.

Redwood-Kairos specializes in advising Funds that seek to employ asset underwriting and tactical management strategies that translate into long-term cash flow and value enhancement. The Funds typically focus on off-market and undervalued transactions ranging in size from approximately \$5,000,000 to \$45,000,000 which Redwood-Kairos perceives to be below the institutional radar and too large for novice/individual investors. Redwood-Kairos' investment management advisory services include, but are not limited to: sourcing, identifying, analyzing, and recommending Investment opportunities; monitoring and evaluating Investments; making recommendations regarding financing, refinancing, and sale of Investments; making recommendations regarding the allocation of cash pending distribution or reinvestment; and providing asset management advisory services with respect to the Investments. As part of its investment management advisory services, Redwood-Kairos also provides ancillary accounting and legal services to the Funds.

Redwood-Kairos does not tailor its services to Investors or potential Investors in the Funds or participate in wrap fee programs. Redwood-Kairos may restrict particular Funds from investing in certain securities and assets, in accordance with suitability, tax, and legal considerations. The investment advice provided by Redwood-Kairos and the scope of each Fund's investment activity is subject to restrictions set forth in each Fund's governing documents.

As of December 31, 2014, Redwood-Kairos has \$259,047,568 in regulatory assets under management, all of which are managed on a discretionary basis. Redwood-Kairos does not manage assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

Redwood-Kairos (including its affiliated entities, such as a Fund's general partner) generally receives management fees, carried interest allocations and/or performance fees in connection with the investment management advisory and administrative services provided to Funds. In addition, in certain cases, Redwood-Kairos also receives a fee related to the acquisition, management, or disposition of real property owned by a Fund.

The compensation structures under which Redwood-Kairos operates are determined by the risk profile and investment strategy targeted by each Fund. The specific terms of Redwood-Kairos' compensation arrangements for each Fund are set forth in the respective governing documents, Offering Memorandum, organizational documents, or management advisory agreements applicable to such Fund.

### *Management Fees*

Typically, the management fee is set as a percentage of the total commitments or capital contributions to the Fund, paid quarterly in advance from the Fund's available cash. Each Fund is required to pay Redwood-Kairos the management fee regardless of Investment performance. Entitlement to non-performance-based compensation creates a conflict of interests as it might reduce Redwood-Kairos' incentive to devote time and effort to seek profitable opportunities for Fund Investments. In certain cases, which may be applicable to Funds established prior to 2008, Redwood-Kairos is compensated with a flat, annual, upfront fee for its investment management advisory services. Upfront fees are fully earned and non-refundable.

### *Transaction Fees*

In certain cases, which may be applicable to Funds established prior to 2008, Redwood-Kairos is compensated with an asset acquisition or disposition fee related to the acquisition, or disposition of real property owned by a Fund.

### *Performance Fee*

Redwood-Kairos or its affiliates generally receive incentive income amounting to a percentage of the realized profit in excess of a preferred return paid to the Investors, subject to certain limitations and a clawback provision.

### *Fund Expenses*

Redwood-Kairos pays for all of its respective ordinary administrative and overhead expenses including salaries, benefits, and rent. Each Fund pays for all other expenses attributable to such Fund. Each Fund is responsible for paying all expenses relating to the formation, organization, and operation of such Fund including, but not limited to: all administrative and operating expenses; interest, fees, and expenses arising out of all permitted borrowings made by the Fund; management fees and other fees payable to Redwood-Kairos or its affiliates in accordance with the terms of the Fund's governing documents; all organizational, legal, and offering costs and expenses relating to the formation of the Fund and its related entities and the offering, syndication, and closing of the Fund and its related entities; all expenses incurred in holding, developing, negotiating, structuring, acquiring, and disposing of the Fund's Investments and prospective Investments (whether or not consummated).

Administrative and operating expenses of a Fund may include, but are not limited to: legal, accounting, and other professional fees, along with any and all fees and disbursements of attorneys relating to Fund matters, fees relating to the preparation of financial reports and tax filings, portfolio valuations, third party audits, and tax returns; taxes, fees, or other governmental charges levied against the Fund, and all expenses incurred in connection with any tax audit, investigation, settlement, or review of the Fund; litigation costs; costs of director and officer liability insurance and indemnification, extraordinary expenses or liabilities relating to the affairs of the Fund; expenses relating to Advisory Board meetings. Organizational, legal, and offering costs may include but are not limited to: travel expenses and out-of-pocket expenses in connection with the each closing, legal fees, placement agent fees and expenses, offering expenses, and accounting fees. Redwood-Kairos reserves the right to waive any or all of these expenses for any particular instances.

Redwood-Kairos and its affiliates may provide services, at market rates, in connection with the origination (servicing start-up fees), acquisition, and administration of loans and making of equity Investments, as well as management, brokerage, servicing, legal, and accounting services to the Funds. In most cases, servicing fees are charged to portfolio companies and are subordinate to the Fund return or a minimum Fund return.

Redwood-Kairos may agree with certain Investors to a variation of certain of the terms set forth in each Fund's Private Placement Memorandum or governing documents including, but not limited to, the management fee and/or performance fee payable to Redwood-Kairos.

Other than as stated above, neither Redwood-Kairos nor any of its management persons receives any compensation from the sale of securities or other investment products.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

As described in Item 5, the Funds typically pay Redwood-Kairos or its affiliates carried interest allocations and/or performance fees.

A portion of the fees Redwood-Kairos receives is based on the performance of the Fund's Investments, which may create an incentive for the Redwood-Kairos to acquire Investments on behalf of the Fund that are riskier or more speculative than would be the case in the absence of such performance-based distribution entitlement. This incentive may be mitigated by the fact that Redwood-Kairos and its senior investment management professionals may make commitments to each Fund side-by-side with Investors.

Differences in Redwood-Kairos' compensation arrangements with its Clients and/or Investors, particularly because some Clients or Investors may pay performance-based compensation and others may not, could create incentives for Redwood-Kairos to manage Client portfolios so as to favor those portfolios of Clients paying performance-based compensation, as could Redwood-Kairos' ownership interest (e.g., as the general partner or limited partner) in some Client accounts. Notwithstanding these potential conflicts, and pursuant to the Fund's organizational documents, each of the Investors will share in all transactions and opportunities of the Fund on a pro-rata basis based upon the capital commitments made to the Fund, except in certain limited circumstances. Redwood-Kairos may, however, advise additional funds or clients in the future. If and when it does, its compensation arrangement with the Fund may differ from that of the other Clients. As a result of such differences in compensation arrangements, Redwood-Kairos may, at that time, face a conflict of interest in managing the various accounts. Redwood-Kairos will address any such conflict of interest at that time.

## **Item 7 – Types of Clients**

As described in Item 4, Redwood-Kairos provides investment management advisory services exclusively to the Funds.

Each Investor is required to meet suitability requirements pursuant to Federal securities laws and to commit a minimum amount in order to invest in the Funds, as outlined in each Fund's governing documents. Redwood-Kairos has the discretion to reduce or reject the minimum initial investment or commitment offer for any reason and has done so in the past for certain Investors.

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

### *Risks*

Investing in the Funds and in real estate Investments generally involves a risk of loss that Investors should be prepared to bear. The following are some of the risks associated with an Investment in the Funds. For a more complete description of risks, please see the Offering Memorandum for each applicable Fund.

While Redwood-Kairos is highly selective in the Investments it recommends to the Funds in order to attempt to mitigate the risks of permanent loss of capital, certain risks are beyond the control of Redwood-Kairos and may subject the Funds to losses. Redwood-Kairos and the Funds have limited operating and investing history. The past

performance of other Investments cannot be relied upon as an indicator of future returns. There is no guarantee Redwood-Kairos will be able to successfully implement any Investment strategy.

#### *Investment Strategies*

Redwood-Kairos focuses on making value-based Investments on advantageous pricing terms resulting from market dislocations in the current economy, generating high-yield cash flow, long-term capital appreciation, and increased net worth. Disciplined asset by asset underwriting and tactical management strategies are employed to enhance value and generate strong cash flows. Often, the focus is on intrinsic real estate value that translates into long-term cash flow and value enhancement. Redwood-Kairos has a strategic market focus backed by strong fundamental analysis of economics, demographics, and local supply and demand conditions.

#### *Investment Process*

The investment process typically will begin with the identification of an Investment opportunity by Redwood-Kairos, followed by underwriting and due diligence. Then, Redwood-Kairos will determine the fundamental value of the potential Investment, identify legal, tax, and regulatory considerations, propose an exit strategy, evaluate the Investment's sensitivity to changes in market conditions, fundamental value or collateral, analyze the financial characteristics of the Investment, and identify and evaluate the risk of the Investment. Though procedural details will vary for each transaction, Redwood-Kairos will typically: assess the value of the investment, including analyzing tenant lease expiration, credit exposures, and historical and projected cash flow performance; evaluate financing parameters of assumed debt maturity risk; construct varying return outcomes which may include upside and downside scenarios; analyze the fit of each Investment in the Fund's portfolio to manage risks such as exposure to specific tenants, property type, geographic exposure, and property quality.

#### *Investment Characteristics*

Redwood-Kairos provides investment management advisory services related to the Funds' Investments in real estate related equity and debt Investments. Investments of the Funds include (i) preferred equity, structured debt, mezzanine debt, joint venture equity, and note purchases; (ii) office, retail, multi-family, industrial, and mixed-use properties; (iii) note and mortgage assets; (iv) loans secured by office, retail, multi-family, industrial, and mixed-use properties; (v) commercial mortgaged-backed securities; (vi) interests in mortgage loans secured by commercial properties (which interests consist of mortgages, related-mortgage notes, and other loan-related documentation); (vii) interests in real estate mortgage investment conduits; (viii) real estate interests in commercial REO properties, represented by deeds in lieu of foreclosure and other instruments; (ix) mortgage pass through certificates; and (x) debt instruments collateralized by commercial mortgages; (xi) other assets included in the governing documents of each Fund.

Typically, Funds will seek to achieve target internal rates of return or IRR (investor returns, net of all fees and carried interest) as described more fully in each Fund's Offering Memorandum. The Funds typically focus on off-market and undervalued transactions ranging in size from approximately \$5,000,000 to \$45,000,000 which Redwood-Kairos perceives to be below the institutional radar and too large for novice/individual investors. This market segment typically provides greater market inefficiencies due to lower transaction liquidity, transparency, and analyst coverage. Funds may target assets smaller or larger and may also co-invest with other investors in projects including entities managed by Redwood-Kairos for purposes of facilitating a Fund Investment.

#### *Methods of Analysis*

The methods of analysis employed involve top-down research, based on macroeconomic and geographic market economic analysis, combined with bottom-up fundamental local market, sub-market and financial analysis. Investments are vetted in a process that includes a disciplined due diligence and inspection of the physical quality of the asset, capital and legal structure risks, evaluation of asset management risks, environmental risks, other identifiable risks, financial obligations, leases, regional and local economics, and local level supply and demand dynamics.

#### *Asset Valuations, Projections, and Targeted Returns*

Projections, forecasts, and estimates are forward-looking statements and are based on certain assumptions. Actual events are difficult to predict, cannot be controlled by Redwood-Kairos, and may differ from those assumed. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results will not be materially lower than those estimated. The valuations, forecasts, estimates, opinions, and

projections involve elements of subjective judgment and analysis. With certain limited exceptions, valuations of Fund assets are determined by Redwood-Kairos and are final and conclusive. Projections of rental income and expenses and estimates of the fair value of a property upon completion of improvements when agreeing upon a price to be paid for the property at the time of acquisition of the property may prove to be inaccurate, resulting in overpaying for a property. There can be no assurance that unrealized Investments will be realized at current or projected valuations or at all. There is no guarantee that any estimates or projections made for the Funds will be achieved. Actual results will vary from projections and such variations may be material.

#### *Operational Risk*

Redwood-Kairos faces operational risk on a day-to-day basis through human error on the part of its employees (data entry error, fraud, reconciliation errors, among other things), through its system (technical failures, systematic errors in valuation or risk measurements models), and through the activities of third parties that provide services to the Funds.

#### *Investor Suitability*

Prospective Investors should carefully consider and review the considerations outlined in each Fund's offering documents with their financial, tax and legal advisers prior to investing in a Fund. Investing in any of the Funds may involve complex tax considerations that differ for each Investor. For participation in a Fund, prospective Investors are required to meet suitability standards including but not limited to financial standards and qualifications. An investment in any of the Funds involves significant risk and should be considered only by sophisticated Investors able to meet drawdown obligations and assume the inherent risks of permanent capital loss and illiquidity with which they are associated. As the Funds' Investment programs develop and change over time, Investments in the Funds may be subject to additional risk factors which are not discussed in this brochure.

#### *Transaction Costs*

Because Investments are actively managed, purchases and sales of Investments may be frequent and may result in higher transactions costs. Amounts paid for Investment expenses, management fees, acquisition fees, origination fees, servicer expenses, originator expenses, and other fees may, in the aggregate, constitute a higher percentage of an Investor's capital relative to other investment entities with similar investment strategies.

#### *Market Risk*

The price of securities, particularly the types of securities and other Investments which the Funds may acquire, could be affected by factors such as: real or perceived adverse economic conditions; supply and demand for particular property types, Investments, and instruments; changes in the general outlook for the real estate market or corporate earnings; interest rates, or adverse investor sentiment generally. The market values of Investments may decline for a number of reasons, including, but not limited to: increases in defaults resulting from changes in overall economic conditions, increases in prepayments resulting from increased borrower mobility or increased availability of refinancing opportunities, and widening of credit spreads. Unfavorable market conditions may also increase funding costs, limit access to the capital markets, or result in a decision by lenders not to extend credit to the any of the Funds. Any of these factors could prevent the Funds from increasing acquiring or increasing the size of their Investments and have an adverse effect on operating results. There also exists an inherent market risk for declining property values in which the Funds invest. The market value of a property may be influenced by development projects, relocation trends, and environmental factors, among others. While Redwood-Kairos seeks to be prudent in acquisition analyses and underwriting, changing market conditions cannot be predicted or guaranteed.

#### *Cash and Cash Equivalents*

The Fund may hold cash and cash equivalents at any given time during its term. Available cash and cash equivalents are generally expected to be held in interest-bearing funds managed by third-party financial institutions. The Fund's access to its invested cash and cash equivalents may be impacted by adverse conditions in the financial markets, and the Fund is subject to the risk that it may lose assets in connection with bank or other financial institution failures. The balances of accounts with third-party financial institutions can be expected to exceed the Federal Deposit Insurance Corporation insurance limits, or the limits of the deposit insurance regimes of other applicable jurisdictions, as applicable. While the Fund will make efforts to monitor the cash balances in its operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or other adverse conditions in the financial markets occur.



### *Interest Rates*

Risks associated with market changes in interest rates are subject to factors which Redwood-Kairos cannot control, such as domestic and international governmental monetary and fiscal policies, and economic and political events. Assets and instruments in which the Funds invest are subject to interest rate risk and to decline in value when long-term interest rates increase.

### *Hedging*

While some of the Funds may attempt to benefit from the use of hedging mechanisms, unanticipated changes in interest rates and other market conditions may result in a poorer overall performance for such Funds than if those Funds had not entered into any hedge transactions.

### *Competition*

Redwood-Kairos faces competition for real property Investments (on behalf of the Funds) from corporations, pension plans, and other entities engaged in real estate investment activities. Competition for the types of properties in which the Funds invest is constantly changing, which may affect costs and returns.

### *Potential for Insufficient Investment Opportunities*

The business of identifying and structuring real estate transactions is highly competitive and involves a high degree of uncertainty. Redwood-Kairos may face increasing competition for attractive Investments from existing and new real estate investors with similar investment objectives. Furthermore, the availability of Investment opportunities generally will be subject to market conditions. In particular, in light of changes in such conditions, certain types of Investments may not be available on terms as attractive as those available in the past. Accordingly, Redwood-Kairos may be unable to find a sufficient number of attractive opportunities that meet its investment objectives to fully invest the full amount of capital that may be committed to a Fund.

### *Diversification*

While Redwood-Kairos expects at full deployment for no single Investment to represent more than 15% of a Fund's total investment portfolio value, the Funds are not limited in the amount of capital that may be committed to any one Investment and do not have fixed guidelines for strategy, industry, or market diversification. As a result, Investments could potentially be concentrated in relatively few strategies, property sectors, or markets. In addition, because of the types of Investments the Funds expect to acquire, Funds will be especially susceptible to risks related to the real estate and mortgage sectors of the economy. Such limited diversification would make Funds significantly more susceptible to risks associated with a single economic, political, or regulatory occurrence than a more diversified portfolio. Funds could be subject to significant losses if a relatively large position in a single strategy, issuer, industry, market, or a particular type of investment that declines in value is held, and the losses could increase even further if Investments cannot be liquidated in due time.

### *Leverage*

Funds may employ leverage to the cost of acquired Investments. In order to increase the amount of capital available for investment, Funds may borrow from brokerage firms, banks and other financial institutions. Consequently, the level of interest rates at which the Funds can borrow will affect the operating results of the Funds. The use of leverage has the potential to magnify gains or losses on Investments and to make Fund returns more volatile.

### *Default and Foreclosure Risk*

The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. As such, through the use of leverage, the Fund's assets will be subject to default and foreclosure risks if there arises a change in conditions where it is not possible to produce a positive net operating income from the property.

### *Regulations*

New or revised legislation or regulations imposed by the SEC, other U.S. or non-U.S. governmental regulatory authorities, or self-regulatory organizations may be adopted in the future, with the risk of potentially making compliance more difficult and expensive, affecting the manner in which Redwood-Kairos conducts business, and having an adverse effect on Redwood-Kairos and any of the Funds or their Investments. Changes in the enforcement

or interpretation of existing statutes and rules by these regulatory authorities or self-regulatory organizations may lead to similar effects as noted above. Additionally, the regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of Investments held by the Funds and their ability to obtain leverage.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations, and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

#### *Investor Default*

Once an Investor commits to a Fund, the unpaid portions of its capital commitment must be contributed to such Fund upon notice from Redwood-Kairos, without exception. A change in an Investor's circumstances will not excuse a failure to make a capital call. Failure to do so may have serious adverse consequences, both to the Investor and possibly to the Fund. Redwood-Kairos has the right to charge the defaulting Investor the maximum rate permitted by applicable law as well as other remedies available in the operating agreement.

#### *Mezzanine and Equity Investments*

Fund Investments involve additional risks attendant to investments consisting of subordinate loan and equity positions. Certain Funds acquire mezzanine securities and preferred equity interests, which involve a high degree of risk with no certainty of any return of capital. Funds may hold preferred equity interests in a borrower and may be subject to equitable defenses to foreclosure on its loan collateral, to which it would not otherwise be subject. In addition, the Fund will be subject to additional risks in these holdings that include, but are not limited to, that of the quality and performance of the sponsor and their ability to perform as the manager of a joint venture, sponsor due diligence, expertise, experience, background checks, and many other risks which could impact the performance of mezzanine and preferred equity interest Investments.

#### *Debt Investments*

Fund Investments may be affected by certain risks which are intrinsic to debt investments, including prepayment risk, credit/default risk, liquidity risk, and others discussed elsewhere in this brochure and in each Fund's governing documents in further detail. Most mortgage loans and other debt investments (especially those with fixed interest rates) which a Fund may acquire are particularly subject to interest rate risk and typically decline in value when long-term interest rates increase. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules such as mortgage investments collateralized by adjustable rate mortgages. Adjustable rate instruments also react to interest rate changes in a similar manner, although generally to a lesser degree. In connection with floating rate debt on any of its Investments, a Fund may enter into interest rate swaps, caps, or other hedging transactions. While such transactions may reduce certain risks, such transactions themselves entail certain other risks and may react to movements in interest rates differently than originally expected.

#### *CMBS and Whole Loans*

A number of possible scenarios which affect CMBS bonds may result in added costs and delays in addition to potential losses associated with a decline in the value of underlying assets. The prices of CMBS bonds in which the Funds may invest have historically exhibited high volatility. Price movements of these bonds may be influenced by, among other things: interest rates; changing supply and demand relationships; trade, fiscal, monetary, and exchange control programs and policies of governments; national and international political and economic events and policies.

The value of CMBS may be substantially dependent on the servicing of the underlying mortgage asset pools and are therefore subject to risks associated with negligence by, or defalcation of, their servicers. The value of such securities may fluctuate in response to the market's perception of the creditworthiness of their issuers. When interest rates rise, the value of CMBS generally will decline; however, when interest rates decline, the value of CMBS with prepayment features may not increase as much as other fixed-income securities because prepayment of mortgages tends to accelerate during periods of declining interest rates. The rates of prepayments on underlying mortgages affect the price, yield, and volatility of CMBS and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. When mortgage loans underlying mortgage-backed securities

held by the Fund are prepaid, the Fund then distributes the proceeds it receives. Therefore, to the extent that prepayments occur, the Fund may be forced to return capital.

The Fund may be required to contract third parties to service its Investments in credit-sensitive mortgage assets and mortgage loans. Such outside loan servicing contracts may not be available to the Fund on a cost efficient basis or may not be available at all. Fees related to such outside loan origination and servicing contracts could negatively affect returns. In certain circumstances, the mishandling of related documentation may also affect the rights of security holders in and to the underlying collateral. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer credit laws with respect to CMBS, which may give the debtor the right to avoid or delay payment or only partially pay debts.

#### *Illiquid Investments*

The real estate market does not have a sufficiently established liquid secondary market to enable Redwood-Kairos to dispose of Fund Investments at its discretion. Accordingly, such illiquidity might adversely affect the market value of such Investments. Investments may be subject to certain transfer restrictions, including restrictions under applicable securities laws, which may also contribute to illiquidity. Similarly affecting liquidity, Funds may possess material, non-public information, which could limit their ability to buy and sell Investments from time to time.

#### *Development, Construction and Renovations*

Redwood-Kairos may invest some or all of the net proceeds available for investment in the acquisition, development, and improvement of properties. When properties are acquired prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, there may be delays in the distribution of cash attributable to any such properties. Funds may be subject to risks relating to the builder's ability to control construction costs or to build in conformity with plans, specifications and timetables. Performance may also be affected or delayed by conditions beyond the builder's control. Funds may incur additional risks when periodic progress is made on payments or other advances to such builders prior to completion of construction. Any of these or other factors can result in increased costs of a project or loss of the investment.

#### *Timing Market and Economic Conditions*

Each Fund intends to hold the various real properties in which it invests until Redwood-Kairos determines that the sale or other disposition thereof appears to be advantageous to achieve investment objectives or until it appears that such objectives will not be met. Redwood-Kairos may exercise its discretion as to whether and when to sell a property (on behalf of a Fund) and will have no obligation to sell properties at any particular time except as provided in each Fund's governing documents. A Fund may be unable to sell a property if or when it decides to do so or at all. There is no predicting the length of time that will be needed to find a willing purchaser and to close the sale of a property. It is impossible to predict with any certainty the various market conditions affecting real estate Investments that will exist at any particular time in the future. The real estate market is affected by many factors, such as general economic conditions, the availability of financing, interest rates and other factors, including supply and demand for real estate Investments, all of which are beyond Redwood-Kairos' control. Due to the uncertainty of market conditions that may affect the future disposition of the properties, there is no guarantee that a Fund will be possible to sell investment properties at a profit. Accordingly, the extent to which cash distributions are received and potential appreciation on real estate Investments is realized will be dependent upon fluctuating market and economic conditions.

#### *Expedited or Delayed Transactions*

Delays encountered in the selection, acquisition, and development of properties could adversely affect Fund returns. To capitalize on certain investment opportunities, Redwood-Kairos may frequently be required to undertake analyses and decisions on an expedited basis with limited information. From time to time, Redwood-Kairos will rely upon independent consultants in connection with its evaluation of proposed investment opportunities; however, there can be no assurance that information and advice provided by these consultants is correct or was based on appropriate due diligence, reasonable assumptions and projections. There is no assurance Redwood-Kairos will have knowledge of all circumstances that may adversely affect an investment, such as physical and structural condition characteristics, environmental matters, zoning regulations or other local conditions.

### *Key Man Risk*

Investors do not have the right to participate in the management of the Funds. The success of Redwood-Kairos and its Clients is largely dependent on the personal efforts of its principals. In the event Carl Chang and Jon Needell are no longer able to participate in the management of the Funds or are no longer affiliated with Redwood-Kairos for any reason, and if no suitable substitutes were identified to replace them, interests of the Funds could be adversely affected.

### *Tenants*

A default of a tenant on its lease and other fee payments would lead to losses in revenue from the property and could reduce the amount of distributions a Fund is able to make. In the event of such a default, there may be delays in enforcing landlord rights and there may be substantial costs in protecting the investment and re-letting the property. Lease payment defaults by tenants could result from adverse economic conditions in the geographic regions in which properties are purchased, adverse economic conditions affecting a particular industry of one or more tenants, changes in tenants' personal finances for any number of reasons, and an unlimited number of other potential reasons.

There is a risk any tenant may file for protection under bankruptcy or insolvency laws. Under certain circumstances, Funds may be unable to collect sums due under relevant leases. If a lease is terminated, there is no assurance that that the property will be leasable for the rent previously received, that refurbishments and improvements will be required in order to attract new tenants, or that the property will sell without incurring a loss or at all. If a vacancy on any of the properties continues for a long period of time, there may be reduced revenues resulting in less or no cash distributed.

### *Uninsured Losses*

Redwood-Kairos will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. An uninsured liability to third parties associated with any asset held directly by a Fund would impair the value of all other assets held directly by such Fund.

### *Litigation*

Fund investment activities are subject to the normal risks of becoming involved in litigation by third parties. Any Fund may have potential exposure or loss for its actions, including but not limited to, exposure or loss under the general doctrines of lender liability and equitable subordination. Even if it is successful in defending any such claims the costs of defending the claims could be substantial, and litigation tends to create a negative public image. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by such Fund. If any such liability or claims are incurred, it would reduce net assets of the Fund and the cash flow distributable to the Fund's Investors could be significantly reduced.

### *Foreclosure*

There is no guarantee that it will be possible to sell any foreclosed properties at a price that will result in a return on the original investment. In any case, it is possible that a Fund may find it favorable or necessary to foreclose on some of the collateral securing one or more debt Investments. The foreclosure process can be lengthy and expensive and the borrower may file for bankruptcy at any time during proceedings, further delaying the process. Following foreclosure, Redwood-Kairos would need to appoint a subsidiary to operate the collateral property, subjecting the Fund to every risk associated with ownership and operation of real property (discussed in further detail in this section and in each Fund's governing documents).

### *Environmental Liabilities*

Under various federal, state, and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presences of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. In connection with the acquisition and ownership of properties, Funds may potentially be liable for such costs and subject to acceleration of loans. The cost

of complying with environmental regulatory requirements, defending against claims of liability, or remediating any contaminated property could adversely affect the Funds.

#### *Americans with Disabilities Act of 1990*

Under the Americans with Disabilities Act of 1990, or ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. If one or more of the properties is not in compliance with the ADA, the FHAA, or other legislation, then it would be mandatory to incur additional costs to bring the property into compliance. If substantial costs to comply with the ADA and the FHAA or other legislation are incurred, a Fund's financial condition, results of operations, cash flow, and its ability to satisfy debt service obligations and to pay distributions could be adversely affected.

#### *Disclaimer*

The foregoing is not intended to be an exhaustive description of the risks associated with investing in a Fund. For a more detailed disclosure of relevant material information, please refer to each Fund's Offering Memorandum.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of Redwood-Kairos or the integrity of its management. Redwood-Kairos has no information applicable to this Item.

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

Redwood-Kairos is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no management persons of Redwood-Kairos are registered or have pending applications to register as representatives of a broker-dealer.

Neither Redwood-Kairos nor its management persons are registered or have pending applications to register as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Kairos Property Management Company, SullivanHayes Brokerage Company, LLC, Dunton Commercial Real Estate Company, and Dunton Commercial California, Inc. are affiliates of Redwood-Kairos and majority-owned by Carl Chang. Kairos Property Management Company, Dunton Commercial Real Estate Company, and Dunton Commercial California, Inc. are property management firms. SullivanHayes Brokerage Company, LLC, Dunton Commercial Real Estate Company, and Dunton Commercial California, Inc. are real estate brokerage firms. Redwood-Kairos' affiliates are separately managed and services occasionally provided by affiliates to the Funds are non-exclusive.

Where appropriate, the Funds have and may engage Redwood-Kairos or affiliates thereof to provide certain services in the ordinary course of business, including, but not limited to: property management, brokerage, servicing, financing, leasing, construction, legal, and accounting services. These services, if rendered after any approvals required by the Fund's governing documents, are to be provided to the Fund at market rates. Prospective investors should bear in mind that Redwood-Kairos has an incentive to use itself or its affiliates to provide these services since doing so will generate additional fee income. These fees could constitute Fund expenses payable prior to making any distributions to Investors. Apart from the requirement that the services be rendered at market rates, there are no other prerequisites, such as experience qualifications, to using Redwood-Kairos or its affiliates to render these services. Other service providers may be available to the Fund with more experience and greater capital resources, who would be able to render the same or comparable services at market rates (and in some cases, at lower than market rates). Moreover, Redwood-Kairos may not, due to conflicts of interest, hold affiliated service providers to the same standard of performance as it would unaffiliated third party providers.

Redwood-Kairos or an affiliate acts as a general partner or managing member of the Funds. Redwood-Kairos does not exercise any discretionary authority with respect to an Investor or prospective Investor's decision to invest in such Funds. A list of Funds that Redwood-Kairos advises is identified in Schedule D, Section 7.B(1) of Part 1A of the Redwood-Kairos' Form ADV, available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request to [investorreporting@redwoodre.com](mailto:investorreporting@redwoodre.com).

The investment team for Redwood-Kairos' Funds will continue to devote time to the management of other existing Redwood-Kairos Funds which may create conflicts in the allocation of resources. Redwood-Kairos is not subject to specific requirements or obligations regarding the allocation of time, effort, resources, or investment opportunities to any particular Fund and is generally not required to accord exclusivity or priority to any particular Client in the event of limited investment opportunities. Redwood-Kairos has the discretion to devote as much time as deemed appropriate or necessary to perform its duties in the management of each Fund.

Redwood-Kairos may provide to Investors that make a specified minimum capital commitment the right to participate in a separate pooled investment vehicle ("sidecar") to access certain co-investment opportunities with some Funds. The Funds may enter into co-investments with third parties through joint ventures or other entities, some of which may be Investors or syndicators of pooled vehicles and have done so in the past. These occasions may be advantageous in view of the relative available capital, financing capacity, investment objectives, and diversification limits of each Fund participating in the co-investment and in accordance with such Fund's governing documents.

Redwood-Kairos does not recommend or select other investment advisers for the Funds.

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

Redwood-Kairos has adopted a code of ethics ("Code of Ethics") expressing Redwood-Kairos' commitment to ethical conduct. Redwood-Kairos' Code of Ethics describes the fiduciary duties of Redwood-Kairos and its supervised persons and their responsibilities to Redwood-Kairos' Clients and Investors. Under Redwood-Kairos' Code of Ethics, Redwood-Kairos has a duty of good faith to act in the best interests of the Redwood-Kairos Funds and all Redwood-Kairos supervised persons are required to promptly report all suspected or apparent violations of the Code of Ethics to Redwood-Kairos' Chief Compliance Officer ("CCO"). All supervised persons must acknowledge receipt of the Code of Ethics and any amendments thereto.

The Code of Ethics contains policies and procedures with respect to personal securities transactions by employees and related accounts that are designed to prevent the misuse of inside information and other improper activities. Employees must report all personal transactions to the CCO (or a designee) on at least a quarterly basis. The CCO (or a designee) monitors all transactions by employees in order to identify any pattern of conduct that may evidence conflicts or potential conflicts with the principles and objectives of the Code of Ethics, or other inappropriate behavior. Redwood-Kairos will provide a complete copy of its Code of Ethics to any Investor or prospective Investor upon request.

### *Gifts and Entertainment*

In accordance with Rule 206(4)-5 of the Investment Advisers Act of 1940 Redwood-Kairos has procedures in place to monitor and limit political contributions made by its supervised persons and employees to public officials and candidates for office.

Redwood-Kairos and its affiliates may engage in business transactions and relationships with third parties who occasionally provide gifts and entertainment to its supervised persons and employees. It is possible that gifts and entertainment provided by third parties may create a bias or conflict of interest in the selection and retention of its providers' services. In order to address this potential conflict of interests, Redwood-Kairos has developed procedures in place to monitor and limit the value of gifts and entertainment given and received.

#### *Disclosure of Portfolio and Other Information*

In certain instances, Redwood-Kairos may disclose portfolio holdings information to service providers and entities engaged by a Fund to enter asset-level or Fund level financial arrangements. There are also instances when Redwood-Kairos may disclose portfolio holdings to current Fund lenders in order to comply with regulatory requirements. Redwood-Kairos strives to secure confidential information through non-disclosure agreements and other reasonable methods but cannot guarantee third party entities will fulfill their confidentiality obligations.

#### *Participating in Client Transactions*

Redwood-Kairos has a fiduciary responsibility to ensure the best interests of the Funds are continuously prioritized. Redwood-Kairos participates in the profits and losses associated with Investments through its ownership interest in the Funds. Redwood-Kairos and its senior investment management professionals may make commitments to each Fund, side-by-side with the Investors.

#### *Personal Trading*

Redwood-Kairos and its affiliates, including its senior investment management professionals, may invest side-by-side in certain co-investment vehicles with the Funds to the extent permitted by the Fund's governing documents. The terms of these Investments are the same for all Investors. As the affiliated parties and the Funds share equally in the economics of the co-investment vehicle, the conflicts of interest in this situation are limited. In addition, as a general principle, Redwood-Kairos requires that potential conflicts of interest be addressed by placing Client interests before personal or proprietary interests.

## **Item 12 – Brokerage Practices**

Due to the nature of real estate investing, Fund Investments are typically made through privately negotiated arrangements and mortgage or real estate brokers rather than through traditional securities broker-dealers. Redwood-Kairos may engage the services of banks, lenders, legal, financial, environmental, insurance, and tax professionals. Redwood-Kairos has complete discretion to select service providers and brokers for the Funds and negotiate the rates of compensation or commissions for the Funds. Redwood-Kairos takes a range of factors into consideration when implementing Fund transactions decisions, in order to determine the best execution option with the Funds' best interests in mind before selecting service providers and professionals who will be paid by the Funds. Redwood-Kairos believes factors other than price must be taken into consideration when determining the value of a service provided, including, but not limited to: professional networks and contacts, buyer/seller database, past performance, market and product expertise, experience with a specific product or security, track record of prior successful dealings, current listings, timing and availability of inventory, workload, and cost.

Redwood-Kairos prohibits principal and agency cross transactions except in compliance with Section 206(3) of the Advisers Act. In certain cases, Funds may engage in transactions with Investors under specifically negotiated terms which are subject to conflicts of interest (because of Redwood-Kairos' participation in the Fund's profits).

#### *Commercial Mortgaged Backed Securities (CMBS Bonds)*

Fund transactions are allocated to broker-dealers based on the most favorable total cost or proceeds available to the Fund per transaction at the time of execution. Securities transactions generate significant costs and brokerage commissions which are paid for by the Funds. In certain cases, Funds may buy or sell securities from brokers acting as agents and being compensated on the basis of commissions, or from dealers operating as principals and being compensated on the basis of mark-ups or mark-downs. Funds may also pay for securities which price-in compensation for underwriters and dealers, as in the case of public offerings.

#### *Soft Dollars*

Redwood-Kairos does not receive soft dollars, benefits, directed brokerage, or research from any broker-dealers.

#### *Trade Aggregation*

When buying CMBS Bonds and other securities for Funds, multiple transactions may be aggregated in one order to ensure the Funds receive the best available terms. Each Fund that participates in an aggregated transaction pays the average price per unit. Funds only participate in aggregated transactions when appropriate, in accordance with

suitability, diversification requirements, risk tolerance, return parameters, and investment objectives outlined in each Fund's governing documents.

### **Item 13 – Review of Accounts**

Each portfolio investment is assigned to an investment manager who is responsible for overseeing the progress of such investment throughout its lifetime in the Fund. Such responsibilities include maintaining ongoing communication with its borrowers or sponsors, tracking each investment's financial and operating performance on an ongoing basis, and conducting formal monthly asset review meetings with the Chief Investment Officer (or as needed). The investment manager is also responsible for spearheading the coordination and execution of all projects related to the investment.

The entire portfolio, including each investment's performance and the market where it is located, is periodically reviewed in light of industry related news and market research which is tracked by the investment team on an ongoing basis.

Asset valuations are reviewed by the Chief Investment Officer, Chief Financial Officer, and investment managers of Redwood-Kairos who constitute the valuation committee, as well as independent auditors with regards to assets in Fund III and Fund IV. Asset valuations are reviewed quarterly for material changes and on an annual basis for any changes pursuant to generally accepted accounting principles and required procedures consistent with Redwood-Kairos' valuation policies.

Redwood-Kairos provides Investors with annual GAAP financial statements, quarterly unaudited financial statements and reports containing a summary of operations of the Fund's Investments, as well as all documentation required for the preparation of annual tax returns. In addition, Redwood-Kairos provides Fund III and Fund IV, and subsequent discretionary Funds' Investors with annual audited financial statements. Reports provided to Investors typically include a breakdown of their account's total commitments, contributions, distributions, net gain/loss, beginning and ending net values, cumulative net value, and cumulative net multiple, as well as their return of capital, return on investment, and total distributions for the past quarter and on a cumulative basis. Redwood-Kairos notifies these Investors when their statements, documents and reports are available for review via email, and these Investors are able to access their information with a login provided to them by Redwood-Kairos through a secure online portal.

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

Redwood-Kairos does not receive compensation or economic benefits from parties other than the Funds for providing portfolio investment management advice or advisory services. From time to time, Redwood-Kairos may enter agreements engaging the services of third party consultants or placement agents in the process of raising capital for some of the Funds.

Pursuant to such agreements, fees paid to a third party person by a Fund typically reduce the Fund's management fee in accordance with the terms of the Fund's governing documents to the extent paid for by the Fund. In these cases, any and all placement agent fees and associated expenses paid by the Fund are applied to reduce (but not below zero) the amount of future management fees paid by the Fund to Redwood-Kairos.

### **Item 15 – Custody**

Unless exempt under the Advisers Act, Investor cash and securities are maintained or held in custody with qualified custodians. In addition, Redwood-Kairos or an affiliate may, among other things, act as general partner or manager of a Fund that Redwood-Kairos advises. Such powers may cause Redwood-Kairos to have custody for purposes of the custody rule of the Advisers Act. Fund III, Fund III-B, Fund IV, and Fund IV-B are subject to an annual audit



conducted by an independent public accounting firm in accordance with GAAP and distributed to Investors in these Funds within 120 days of the Funds' fiscal year. To the extent that other Funds are not subject to such audits, Redwood-Kairos undergoes an annual surprise examination by an independent public accountant to verify these Funds' assets.

Further, Redwood-Kairos has a reasonable belief that Investors receive at least quarterly statements from any qualified custodian that holds and maintains any of these unaudited Funds' cash and securities. Redwood-Kairos urges Investors who receive such statements to compare such official custodial records to the account statements that Redwood-Kairos may provide to Investors.

### **Item 16 – Investment Discretion**

Redwood-Kairos generally receives and exercises full discretionary authority to manage Investments as outlined in each Fund's governing documents.

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

Redwood-Kairos may have the authority to vote proxies on behalf of a Fund as set forth in each Fund's governing documents. When appropriate, Redwood-Kairos will generally submit votes in what is considered to be in the best financial interest of the Fund. For information regarding votes submitted by Redwood-Kairos in the past on behalf of the Funds, please contact [investorreporting@redwoodre.com](mailto:investorreporting@redwoodre.com).

### **Item 18 – Financial Information**

Redwood-Kairos does not currently have any financial condition that could impair its ability to meet contractual and fiduciary obligations and commitments.