Improving Investor Outcomes with a Diversified Portfolio of Private Market Investments

Accessing the Private Capital Markets for Better Returns with Less Risk

November, 2017
What’s My Job? | To What End?

Investment Advisor
Providing client-specific, objective investment advice.

Asset Allocator
Recommending the best mix of market exposures to maximize the risk-return tradeoff for each client.

Investment Strategist
Developing and packaging specific investment strategies and products for varied client objectives and risk tolerances.

Portfolio Manager
Implementing, managing, monitoring and measuring client portfolios.

Entrepreneur
Keeping my mind and eyes open to any investment opportunity that can help clients improve their outcomes.

To What End?
All of the above simply serve one overriding aim: to help clients meet their unique goals and objectives as directly and efficiently as possible.

“My clients could use some of those (private market) returns.”

Thomas F. McKeon, CFA | Chief Investment Officer
Clothier Springs Capital Management, LLC
Why Private Markets?

Very Large and Growing | Enormous Opportunities
“From 2009 through 2014, investors supplied nearly $17 trillion in primary capital—providing capital directly to companies in exchange for debt or equity securities. And the overall amount of money raised has grown steadily.

However, during this same time period, the amount of capital raised in the private markets actually outpaced the amount raised in the public markets. For example, during 2014, for every investor dollar raised in the public market, nearly $1.50 was raised in the private markets. This represents a profound shift in how companies obtain needed financing, and in how investors provide that financing.”

From “Lighting Our Capital Markets”
Kara M. Stein | Commissioner | U.S. Securities and Exchange Commission
July 11, 2017 | Boston, Massachusetts

Low Correlation to Public Markets | Increases Diversification
Private investments do not trade on the public market exchanges. As such, they do not exhibit the price volatility of stocks, bonds, ETFs and mutual funds whose prices fluctuate constantly. This lack of real-time pricing means that private investments also do not correlate closely to public market investments. Including private investments in an asset allocation further increases diversification and reduces risk.

Too Rewarding to Ignore | Superior Expected and Realized Returns
In our three-year due diligence process we have identified multiple types of private market investments and projects with structural returns ranging from 12% to 40% annually.
What Drives the Superior Returns?

Illiquidity Premium
Investors in private markets demand an illiquidity premium in the form of excess returns in exchange for accepting limited liquidity.

Risk Premium
Investors in private deals also demand a risk premium in the form of excess returns in exchange for accepting the specific risk of individual private deal investments.

Deal & Market Structure
Entrepreneurs seeking private capital to fund their projects and business models are willing to pay above-average rates because their own projects and business models are so lucrative and they can dispense with traditional lender underwriting.

Price Discipline
Where Clothier Springs Capital Partners expects to make direct investment in one to four family properties for rehab and resale or rent, adhering to a strict price discipline on property acquisition will provide the required excess return.

Margin of Safety
The above referenced Price Discipline also provides a healthy margin of safety for each direct investment: large upside return potential with very little potential for loss.

Value Creation Activities
Identifying, evaluating, investing, rehabbing and selling properties is real work that not everyone is prepared to undertake. This too is a driver of superior returns.
What Investments Will the Fund Make?

Residential Rehab and Sale
Direct investment in distressed properties for rehabilitation to move-in ready condition.
Expected returns: 30% to 40% per project | Projects typically take six months or less.

Single or Multi-Family Rental Properties
Purchase of multi-family units for rental income, and eventual sale.
Expected returns: 10% to 14% annual

Commercial RE Projects
Direct investment with commercial RE developers
Expected returns: 16% to 22% annual

Hard Money Lending to Residential Rehabbers
Short-term loans to rehabbers secured by a first lien on the property
Expected returns: 12% to 18% annual

Private Lending
Investment in providing capital to alternative lenders
Expected returns: 12% to 18% annual

Mortgage Notes
Purchase of mortgage notes at discount to face value
Expected returns: 16% to 24% annual
Is There a Common Investment Theme?

**Intrinsic Value**
All of our investments will be secured or collateralized by a real, tangible asset: real estate, merchant receivable or cash flows or notes secured by real assets. Accordingly, they all have an intrinsic value that we can estimate and use for assessing investment return potential and risk.

**Real Assets—Real Cash Flows—Real Collateral**
Investments secured by tangible collateral have limited risk as the collateral can be used to recover investments.

**Organic Demand**
There is broad demand for renovated housing, rental housing and non-bank borrowing. As such, entrepreneurs seek capital in the private markets to rehab homes, lend capital to rehabbers and make non-traditional short-term loans to entrepreneurs for working capital or expansion.

**Direct**
All of the Fund’s investment will be in direct projects we undertake or with entrepreneurs seeking capital whom we have a direct relationship with. Moreover, we are creating and managing this vehicle ourselves so as to eliminate the need to hire one or more sub-investment advisors, and to avoid an additional layer of investment fees. This direct relationship with Clothier Springs Capital Partners, LLC maximizes your net returns.
Why a Fund?

**Portfolio Management**
A portfolio is the quintessential return-enhancing and risk-limiting tool, providing diversification and reducing the adverse impact of any single, sub-par investment.

**How Prudent Money Is Managed**
Investment advisors and other fiduciaries have a duty to invest prudently, limiting risk and permanent loss of capital. A portfolio is the best vehicle to do that.

**Asset Allocation**
A fund of Private Investments allows investors to access a broad array of private investments and to include a diversified portfolio of private investments in a broader asset allocation, further enhancing returns and total portfolio efficiency while reducing risk.

**Investor Access**
Our fund—with a very modest minimum investment—allows investors to gain access to a broad range of private market investments and provides access to multiple deals or projects that typically have minimums of $100,000 or more.

**Solves the Re-Investment Issue**
Private market investments and deals typically distribute returns or cash flows to investors on a periodic basis. Investors are then challenged to re-invest the cash in comparable, high-return private market opportunities. A fund vehicle will retain all cash flows and re-invest at our projected superior average annual return and drive investor Net Asset Value.
What is the Fund Structure?

Open-Ended LLC
Organized as a Limited Liability Company (LLC), we will operate as an open-ended mutual fund, accepting new investors from time to time and redeeming shares for investors who wish to exit the LLC, after their required holding period.

Management Fee
Clothier Springs Capital Partners, LLC will pay a flat 1.0% annual management fee on fund net assets to the advisor, Clothier Springs Capital Management, LLC.

Net Asset Value (NAV)
The Fund will calculate a Net Asset Value monthly based on net assets divided by outstanding shares. This NAV will be used to admit new investors and to redeem departing LLC Members.

Holding Period
Due to the general illiquid nature of the anticipated investments, the Fund will require investors to hold their shares for at least one year before the possibility of redeeming shares and exiting the LLC. After the one-year holding period, investors who wish to redeem shares will provide at least a ninety (90) day notice so the fund can raise the required liquidity.

Transparency
Clothier Springs Capital Partners, LLC will maintain a current, monthly bank statement and portfolio inventory on a password protected site for Members only so they can monitor Fund activities and progress.
Who Can Invest?

Private Individuals
The fund is open to accredited private investors and a limited number of non-accredited private investors. The fund welcomes:

- Personal, joint or trust accounts
- Individual Retirement Accounts (IRA): through a Self-Directed IRA*
- 401(k) or 403(b) Accounts: through a Self-Directed IRA*

Institutional Investors
The fund is open to institutional investors. The fund welcomes:

- Foundations & Endowments
- Municipal (state, county, local) Pensions
- Corporate Pensions
- Corporate Cash

Partnerships & Limited Liability Companies
The fund is open to corporate entities who wish to gain access to a diversified portfolio of private market investments.

Minimum Investment:
The minimum initial investment is $25,000. Subsequent investments must be a minimum of $10,000.

* Ask us about this unique IRS approved account for investing IRA and other retirement assets
What is in it For You?

- Superior private market returns
- Decreased risk from a diversified portfolio
- Participation in multiple business models
- More efficient asset allocation
- Modest minimum investment
- Investor access to high-minimum deals
- Professional portfolio management
- Full-time supervision and deal-sourcing
- Transparency
- Unified portfolio, performance and tax reporting
What is the Point?

Low Expected Returns for Stocks & Bonds
The point is simple: with interest rates stubbornly (even artificially) low, nowhere to go but up, and after an extended period of above long-term average returns for U.S. stocks, forward returns from well-balanced and well-allocated portfolios of public market investments will be limited—below historical averages. As responsible investment advisors, we project forward annual returns over the next decade of no more than 6% to 8% for a fully allocated portfolio, and that may be optimistic.

With inflation seemingly in check at the 2.0% to 2.5% annual range, 6% to 8% annual returns will be more than adequate, compounding investor wealth and purchasing power nicely. For investors who prefer the comfort and familiarity of liquid investments that can be monitored daily in real time, this will be all they need.

But....

...the Private Capital Markets are Too Rewarding to Ignore
For investors willing to accept some illiquidity (perfect for IRAs, 401(k)s and others) and invest in the private capital markets, the returns promise to be far more rewarding than the public markets are likely to deliver. Our expected return modeling for the anticipated mix of our Fund investments is in the range of 20% to 25% annually.

A Better Allocation
Adding a 25% allocation to our Fund and its projected 25% annual return would take a portfolio built to earn 8.0% annually and raise its annual expected return to 12.5%. This is a meaningful improvement in portfolio expected returns and will compound portfolio values more rapidly.
Why Does it Matter?

√ Greater Wealth
√ Greater Financial Security
√ Greater Lifestyle Flexibility
√ Greater Legacy

Investors, both private and institutional have their unique objectives, mandates and risk budgets. Ultimately, investing is about putting capital to work and growing it to improve one’s position.

Investing in the private markets offers investors the opportunity to earn better returns and improve their outcomes. Whether your goal is to improve your own position or to change the world with your philanthropy, better outcomes means more of all of the above.

That’s why it matters.
## Appendix: Expected Return Modeling

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<th>Expected Return Modeling</th>
<th>Target Weight</th>
<th>Expected Annual Return</th>
<th>Target Extension</th>
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<tr>
<td>Fund Size</td>
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<tr>
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<tr>
<td>Fund Weight</td>
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<tr>
<td>Rehab</td>
<td>50.0%</td>
<td>35.0%</td>
<td>17.5%</td>
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<td>Income Properties</td>
<td>5.0%</td>
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<td>Hard Money Loans</td>
<td>7.5%</td>
<td>15.0%</td>
<td>1.1%</td>
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<td>Retail RE LLCs</td>
<td>2.5%</td>
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<td>Commercial RE LLCs</td>
<td>15.0%</td>
<td>20.0%</td>
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<td>Private Lending LLCs</td>
<td>20.0%</td>
<td>17.0%</td>
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<td></td>
<td><strong>100.0%</strong></td>
<td><strong>25.90%</strong></td>
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Portfolio Expected Annual Return | 25.90%  |
For More Information:

For more information or to request a meeting or subscription materials:

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“I was spreading some risk around, and apparently it all wound up in your portfolio.”

Portfolio Manager Humor