

# CLOTHIER SPRINGS CAPITAL PARTNERS, LLC

A PENNSYLVANIA LIMITED LIABILITY COMPANY

FOR

DIRECT INVESTMENT IN PRIVATE REAL ESTATE, PRIVATE LENDING & CLOSELY RELATED  
OPPORTUNITIES

## EXECUTIVE SUMMARY

NOVEMBER 2017

CLOTHIER SPRINGS CAPITAL PARTNERS, LLC  
CLOTHIER SPRINGS CAPITAL MANAGEMENT, LLC  
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## INTRODUCTION

After more than three years of market and industry research and due diligence, Clothier Springs Capital Management (CSCM) has formed Clothier Springs Capital Partners, LLC (CSCP, LLC, Fund or the Company), a Limited Liability Company to make direct private investments in real estate, private lending and closely related opportunities on behalf of clients. CSCP was formed in September 2017. CSCM will be the managing partner/member of CSCP and investors who choose to invest will be the Limited Liability Members (Investors, Partners or Members).

## INVESTMENT RATIONALE AND OBJECTIVE

The objective of the Fund is to provide clients a diversified portfolio of attractive return opportunities arising from direct, private investment in real estate and closely related businesses. Risk is mitigated through the acquisition of investments/projects with superior expected returns and margin of safety resulting from acquisition price discipline, project supervision and due diligence. Risk is further mitigated through diversification as well as the low correlation to public investments.

**Ultimately, the higher returns available from a portfolio of private investments will help investors and clients improve their outcomes.**

## TYPES OF DIRECT INVESTMENTS

In the research and due diligence process of deciding whether to pursue a direct real estate & related investment fund, we have begun to tap into multiple sources of private deals and opportunities through our growing network of related professionals: entrepreneurs, developers, contractors, real estate agents, lenders and property managers. CSCP expects to pursue several types of direct real estate and closely related investments. Below is a small sample of deals already available to the Company.

- √ *Direct investment in residential real estate rehab and sale: Expected Return (ER) of 30% to 35%*
- √ *Direct investment in commercial real estate projects: ER of 16% to 22%*
- √ *Direct investment in income producing properties: ER of 8% to 14%*
- √ *Direct investment in high-yield private lending opportunities: ER of 12% to 18%*
- √ *Direct short-term loans to real estate rehab developers: ER of 12% to 18%*

## DIRECT REAL ESTATE AS AN ASSET CLASS

Real Estate is a diverse and inefficient market. It is also less liquid than market-based investments. Generating returns requires the application of capital, energy and expertise in sourcing, acquiring, rehabilitating and exiting the investment. Not everyone is prepared to do that work or accept the lack of liquidity. This is a major reason why returns from direct real estate investments tend to be higher than liquid market investments, over time. Our research and due diligence indicates the outsized returns (relative to the public securities markets) are durable and consistently available.

## DIRECT PRIVATE LENDING AS AN ASSET CLASS

Private lending to small and medium (SME) business has grown steadily in the wake of the traditional banking difficulties of 2007-2009. Lending from banks has fallen sharply as underwriting standards were tightened and capital reserves and bank balance sheets were strengthened to meet stress test requirements. The result is that many SME business no longer have access to credit for working capital or expansion. Private lending fills that void. Loans are short term and collateralized by business cash flows and receivables. And like any lender, they need (private) capital to fund loans.

## GEOGRAPHIC & INVESTMENT DIVERSIFICATION AND RELATED PROFESSIONALS

Clothier Springs Capital Partners plans to operate in several geographical regions, where we have been building relationships with strategic partners: contractors, developers, real estate professionals and property managers who are already making these investments, or providing services to individuals and entities making these investments. They are the broader Delaware Valley and the greater Lehigh Valley/Scranton/Wilkes-Barre region. This will provide adequate diversification of geography, property type, deal pricing and associated costs.

## STRATEGIC RELATIONSHIPS

CamaPlan-Self Directed IRA's Carl Fischer   Ambler, PA	Dan Lavery: RE Agent, Broker & Property Manager McDermott & McDermott RE, INC   Wilkes-Barre, PA
Donatone Brothers   General Contracting & Construction Alan & Jay Donatone   Malvern, PA	Tri-County Inspections   ASCI Certified Home Inspection Jack Milne   Morrisville, PA
Re-Konditioning by Kadash   RE Development & Sourcing Matt Kadash   Edgemont, PA	BM RE Holdings, LLC   Private RE Investment LLC Matt Kadash   Edgemont, PA
Dave Ashe: RE Agent, Broker & Partner Keller Williams   Exton, PA   Chester County	Karen Cruickshank: RE Agent Berkshire Hathaway-Fox & Roach   Wayne, PA

*\*These vendors are independent businesses, unaffiliated with Clothier Springs Capital Partners, LLC.*

## SELF-DIRECTED IRA

Clothier Springs Capital Partners can accept investments from individuals, institutions and other investment partnerships. Most appealing of all is that investors with an Individual Retirement Account (IRA) or other tax-exempt accounts (401(k)) can invest in CSCP through an IRS approved vehicle known as a "Self-Directed IRA." That way, clients can earn superior returns with their long-term retirement assets AND they remain tax-exempt. We have already established a relationship with a Self-Directed IRA vendor in anticipation of having clients who wish to invest in Clothier Springs Capital Partners LLC with their IRA or other tax-exempt account.

## OPERATING GUIDELINES

Clothier Springs Capital Partners, LLC is seeking to raise \$2,000,000 from long-term investors to fund the company. This will permit CSCP to pursue multiple investments, projects and deals and to provide adequate diversification. CSCP will pay a flat 1.0% annual investment advisory fee to Clothier Springs Capital Management, LLC to manage the Clothier Springs Capital Partners, LLC. CSCP expects to pay all costs associated with sourcing, vetting, making and exiting investments in specific projects. Investor capital will not be used for general operating (salaries, rent, etc.) purposes. The Company will commence operations once committed funds reach \$500,000. Management may increase the \$2,000,000 initial funding target if investor demand warrants.

The minimum investment is \$25,000. This reasonably small minimum will allow investors to participate in a diversified portfolio of direct private investments, which typically have minimums of \$100,000 or more, or projects which typically require at least \$100,000 or more to undertake. This diversification minimizes risk and provides access to otherwise inaccessible investment opportunities. Investors will receive one K-1 for their personal tax reporting.

## **THE OPPORTUNITY: EXPECTED RETURNS**

Our research indicates that properties purchased at sufficiently low prices, and rehabbed properly generate returns after all costs that tend to cluster in the 30% to 35% range, per project, which usually take less than six months. Short-term loans to developers tend to be at 12% to 18% annual, and rental income generating properties tend to deliver incomes ranging from 8% to 14% annually. Direct investment in commercial RE deals clusters around 16% to 22% annual returns. Private lending targets returns in the 12% to 18% range.

Thus, a portfolio of investments in the targeted investments and proportions is expected to deliver annual returns in the 20% to 25% neighborhood, uncorrelated to listed-market (stocks, bonds, ETFs) investments. This would be a significant enhancement to traditional investment portfolio returns. While these expected returns may seem unrealistic, our research indicates that these are typical returns for private investments in real estate development, rehab and high-yield lending.

## **DEMOGRAPHICS**

Our research indicates several demographic trends working in our favor: Housing supply is tight—especially affordable housing, aging baby boomers are downsizing, much of the housing inventory is in need of a rehab, young families seek move-in ready affordable housing and mortgage rates remain low/affordability remains high. Our research also indicates a strong demand for private credit.

## **FIDUCIARY RESPONSIBILITY**

As always, Clothier Springs Capital Management, LLC as a Registered Investment Advisor is a fiduciary, serving client interests first and foremost. We continue to seek opportunities to help our clients meet their own unique investment objectives. We have researched this market and opportunity extensively for more than three years. Since we take our role as Investment Advisor and Fiduciary seriously, we wanted to make sure that we understood the moving parts, that opportunities to invest are there and that returns and margin of safety were more than adequate. We are satisfied that they are. We also adhere to the CFA Institute Asset Manager Code.

## **TAX ISSUES FOR TAXABLE INVESTORS**

Direct investment in commercial real estate offers taxable investors the benefits of accelerated property depreciation and its related tax-reduction impact.

## **PRINCIPAL MEMBERS**

Prior to this offering only one (1) Class B Unit has been issued to the Managing Member, Clothier Springs Capital Management, LLC. This share class is for control and management of the Company. Class B shares do not own the Company nor are they entitled to any distributions or economic benefit (other than the advisory fee). Up to 200,000 Class A Units will be issued to Investors.

## **ESTIMATED USE OF PROCEEDS**

100% of the funds raised for the Company will be used to source, vet and invest in direct real estate deals, select private lending opportunities and selected other private funds pursuing these and closely related investments in the private markets of the nature already described previously. Company funds will not be used for working capital, salaries, or other corporate overhead.

## DISTRIBUTIONS AND REDEMPTIONS

The Company anticipates retaining all distributions from investments: income, rent, interest return of capital and realized gains to grow investor Net Asset Value. In this regard, the Company will operate like an open-ended mutual fund. After one year of operations, investors may redeem shares quarterly with ninety (90) day notice. This will allow management to conduct operations for at least a year to understand the typical cash flows the Company experiences: from investment, investment distributions, return of capital, capital events, property sales and income. The ninety day period will provide adequate time to raise the necessary liquidity.

## MANAGEMENT TEAM

The managing partner/member of Clothier Springs Capital Partners, LLC is Clothier Springs Capital Management, LLC. Clothier Springs Capital Management is a Registered Investment Advisor founded in 2010 and is 100% owned by its principal Thomas F. McKeon. McKeon has worked in the capital markets since 1980: as equity and foreign currency option market maker/trader at the Philadelphia Stock Exchange until 1991, then as a financial analyst, portfolio manager, investment advisor and wealth manager. Clothier Springs Capital Management currently manages almost \$40 million of private client and corporate assets.

McKeon has managed portfolios for state pensions, municipal pensions, small endowments, fire and police pensions, a mutual fund, a limited partnership and numerous private investors and as a sub-advisor for other wealth managers. He has been a member of the CFA Institute since 1991 and a CFA Charterholder since 1995.

At Clothier Springs Capital Management, McKeon created and manages the **StructurAlpha**<sup>®</sup> Strategies—a suite of low-cost, liquid and transparent portfolios that observe a rules-based hedging protocol. The strategies deliver superior risk-adjusted returns (alpha). The alpha is a function of portfolio structure, not unreliable, continual active trading and portfolio decisions.

He is assisted at Clothier Springs Capital Management by his wife Carla who serves as office manager and his son Sean who is responsible for digital marketing and trade execution.

For More Information:

# CLOTHIER SPRINGS CAPITAL PARTNERS, LLC

## Thomas F. McKeon, CFA

Principal & Chief Investment Officer

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## “Structure IS the Strategy”

# ENTITY ORGANIZATIONAL CHART

