PATHFINDER® PARTNERS, LLC

Intelligent, Innovative Investing™

THE PATHFINDER REPORT

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IN THIS ISSUE

We are pleased to announce the launch of our seventh major real estate investment vehicle, Pathfinder Partners Opportunity Fund VI, L.P (the "Fund"). We are targeting a $100 million fundraise with favorable terms for investor commitments received before March 31, 2018. Click here for more information on the Fund and to view a brief video about Pathfinder.

CHARTING THE COURSE

Don't Put All Your Eggs in One Basket

By Mitch Siegler, Senior Managing Director

Ray Dalio, the billionaire founder of Bridgewater Associates, the world's largest hedge fund with $160 billion in assets under management, has his finger on the pulse of markets and economic trends and good insight into human nature and behavior. His book, "Principles" summarizes 200 principles he's developed over the years that guide him and his firm.

We'll save you time. Bridgewater's success is primarily due to three key principles. First, diversification (Siegler's 1st rule of finance: "Don't put all your eggs in one basket") – balance your investments with uncorrelated bets. Second, use leverage (borrowed money) wisely to enhance returns. Third, a principle Dalio learned early on: "You can never be sure of anything."

Harry Markowitz, a finance professor down the road at the Rady School of Management at University of California, San Diego (UCSD) won the Nobel Prize in Economics in 1990. He's known for his pioneering work in modern portfolio theory studying the effects of asset risk, return, correlation and diversification on investment portfolio returns.

Warren Buffett also focuses on diversification in portfolio construction. Berkshire Hathaway's largest publicly-traded holdings as of September 30, 2017, valued in the billions, are: Kraft-Heinz ($26b), Wells Fargo ($26b) and Apple ($23b). Right away, you'll see the balanced sizes of these investments. The asset types – a food manufacturer, a bank/financial services firm and a technology company – are as different as they can be (Prof. Markowitz would call them uncorrelated). All are bread-and-butter businesses which flourish in good times and bad. If there's a tech downturn, it's unlikely to spill over into financial services or food. Kraft-Heinz investors benefit from the fact that people need to eat and already participate in a diversified portfolio of branded products. Apple investors participate in a revenue stream which is a mix of hardware, software and services. Layer upon layer of diversification.

Successful investors like Dalio, Markowitz and Buffett focus on diversifying their portfolios, which often means maintaining appropriate positions in equities, fixed income (bonds), real estate and other asset classes. And, they seek balance within these investment categories as well.

At Pathfinder, we are highly intentional about portfolio construction and diversification by investment amount, property type and location. For our investors, multifamily investments typically represent a portion of their overall investment portfolios so concentration risk in this category is already mitigated. As an asset class, Prof. Markowitz would say that multifamily is not highly correlated with most traditional investments like fixed income or equities (increasingly vulnerable to a decline at recent nose-bleed valuations).

Since everyone needs a place to rest his weary head, multifamily has proven for decades to be a less volatile real estate asset class than say, retail (vulnerable to a downturn in consumer spending or to disintermediation by online shopping) or office (at risk to changes in how and where work is performed – think about all of those people on laptops at Starbucks or airports and the declining amount of office space/worker). Pathfinder's focus on buying low and adding value by renovating '80s and '90s-vintage, Class-B apartments provides further downside protection since these rents are typically 25%-35% below rents in newly-built, Class-A, luxury apartments. Uncorrelated assets with built-in downside protection – good ingredients for stripping risk out of an investment portfolio.

At Pathfinder, we start with a top-down approach and then construct our portfolios bottoms-up. Coming at it from 20,000′, we're super-bullish on multifamily investing for the next few years. Macro factors – a plummeting homeownership rate during the past decade, high student loan debt, millennials' desire for mobility and delayed life-cycle events (like marriage and kids) – are among the many drivers of increased apartment occupancy and strong rent growth. Each of Pathfinder's target markets in the western U.S. (Seattle, Portland, San Diego, Sacramento, Phoenix, Las Vegas and Denver) is supply-constrained to one degree or another. Infill land is difficult to find everywhere (nearly impossible in San Diego and Seattle), battles with communities to secure entitlements are fierce and construction costs are escalating. That's why few apartments were built from 2008-2012 and virtually the only construction nowadays is of luxury, Class-A apartments. The resulting supply/demand imbalance has propelled occupancy rates to historic highs and generated robust rent growth at the same time. A rising tide lifts all boats, especially for moderately-priced, value-add, Class-B apartments.

When we construct a portfolio for one of our funds, we seek to create balance so that if there's a downturn, we don't have all our eggs in a single basket. If our portfolio was concentrated in Seattle (a red-hot market, owing in large part to the success of Amazon), we could benefit greatly but would be vulnerable to an Amazon slowdown. A portfolio with excessive concentration in Las Vegas would be at risk to a major downturn in consumer spending or a fall-off in travel, as occurred after 9-11. Phoenix, home to very few corporate headquarters but where virtually every Fortune 500 company has back office operations (call centers, distribution centers), is well diversified economically. Ditto San Diego and Denver. You get the idea. A little here and a little there to cushion the shocks.

Stocks and bonds aren't highly correlated with each other. Real estate isn't highly correlated with stocks or bonds. Apartments provide more protection from an economic downturn than retail or office properties. And value-add apartments offer more of a cushion than pricier luxury properties. Layer in geographic diversity into that real estate portfolio and it further buffers an overall investment portfolio.

Wishing you a Merry Christmas, a Happy Hanukkah, a terrific New Year and a well-diversified investment portfolio.

Mitch Siegler is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Mitch founded and served as CEO of several companies and was a partner with an investment banking and venture capital firm. Reach him at msiegler@pathfinderfunds.com.

FINDING YOUR PATH

The Greatest Boondoggle in Modern Times

By Lorne Polger, Senior Managing Director

Unless you've been sleeping under a rock, you've probably heard that California is trying to build its own shiny, speedy bullet train.

In 2008, Golden State voters approved a ballot measure (by 53% to 47%), that kicked off what many argue is the nation's largest, most ambitious and by far, costliest infrastructure project.

In the extraordinarily unlikely situation that there are no construction delays (have you stopped laughing yet?), the train's first phase should be completed by 2029 (or is that 2209?). I always get the numbers mixed up. Phase One promises an under three-hour ride between downtown San Francisco and downtown L.A. That's about two hours and four minutes **longer** than the average flying time between the cities. And about two hours and thirty minutes longer then the projected hyperloop time. But why bother discussing new technologies when we can focus on soon-to-be-functionally-obsolete technologies like rail?

As you might have read over the last year or two, the California bullet train is in trouble (surprised? shocked?). The original cost estimate approved by the voters in 2008 was a mere $40 billion. No small potatoes back then. But guess what? We're up to $64 billion now, and many pundits are talking over $100 billion when all is said and done. Yup, $100 billion. Make sense to you? Hard for me to see that is where hard-earned California taxpayer dollars should be going.

Notwithstanding litigation, engineering problems, construction snafus and a whole plethora of infrastructure issues, the project has plodded forward. Passenger service between San Jose and Bakersfield is expected as soon as 2025 (or maybe 2052, there's that dyslexia thing again). I suspect the 17 people who will regularly ride that segment will really enjoy the views speeding by.

So, What Is the High Speed Rail (HSR) System?

The HSR project, passed in 2008, called for building almost 800 miles of track up and down the state, connecting the largest cities (San Francisco, Sacramento, Los Angeles and San Diego). In theory, the train is intended to provide Californians with a fast and convenient travel option without relying on autos or short-haul airplane flights. The train's proponents envisioned HSR as a much-needed boost to the state's aging infrastructure.

Following the first phase (San Jose to Bakersfield), the second phase will connect San Fran to San Jose and Bakersfield to Anaheim. After those are completed, additional legs are planned for Sacramento and San Diego. I'm thinking 2050 if those happen at all. But I could be wrong of course; could be 2150, by which time all fossil fuels will be gone, and the vast majority of Californians will be in driverless cars. Of course, most of those reading this (and your author) will likely be residing in the hereafter by then, either way.

Construction Status

The High Speed Rail Authority (HSRA) officially broke ground in Fresno in 2015. Since then, construction crews have been working on a 119-mile segment of track in the Central Valley; think right of ways, bridges, trenches and tunnels. But that's where it gets interesting.

A crucial part of the journey will be a 13.5-mile tunnel in southeastern Santa Clara County. But the scope, complexity and cost of the tunnel are at the heart of concerns about the viability of the whole project. An analysis this year by the *Los Angeles Times* found that tunnel construction costs could exhaust the $5.5 billion budget for the entire 54-mile segment from Gilroy to Chowchilla. Oops. In fact, some of the world's top tunnel experts put the cost of the tunnel at $5.6 to $14.4 billion. Folks, that's just for one tunnel.

Not good news for California taxpayers. Engineers at the California HSRA are cautious but not worried. The *L.A. Times* quoted the project's chief engineer, Scott Jarvis. "We don't see any problem." Really, Scott? Maybe you should smoke some more of California's soon-to-be-legal recreational cannabis.

Here's the larger problem. State officials have acknowledged that if they can't demonstrate a financially successful starter system, private investors will not commit money to build the rest of the line to L.A. Think, a bridge to nowhere.

A public finance expert at USC recently noted that the project's potential bond financing is not "a reliable source of revenue…I can't imagine why a rational investor would take that risk." Hmmmm. Starting to smell like day old fish around these rail lines….

What Else Could Go Wrong?

Funny you should ask. Sure, it's already $24 billion over budget, heading for a much larger number. But you know what's worse? Time is money. Construction is progressing at a painstakingly slow pace. A Federal Rail Administration risk analysis from earlier this year said the project was running significantly over budget and behind schedule, according to *The L.A. Times.*

And that's before the lawyers get involved (with all due respect to my former profession). At least six lawsuits have been filed relating just to the Central Valley portion of the route. Of course, many more suits will likely follow. In July, the California Supreme Court ruled that state environmental laws apply to the train, despite an argument made that easier federal laws should apply.

And then there are the legislative issues. A potential 2018 ballot amendment could derail (pun intended) one of the train's primary funding mechanisms. Not looking so good in Lionel Land.

What Could We Do with the Money Instead?

Okay, so you now understand that the HSR project is completely irrational. It's dated and soon to be obsolete technology; it's staggering cost is obscene and will drag the state down financially for decades; it's ridership will be de minimus. But other than that Mrs. Lincoln, how did you enjoy the play?

So, here are a few ideas for various California infrastructure projects that could be paid for with a $64 billion budget (keeping in mind that the number is most assuredly going to grow exponentially beyond that).

(1) For $15 billion, build desalination plants to supply one-third of California's residential water requirements.

Desal plants are being developed all over the world, and California, with only one major operating desalination plant (in Carlsbad), is way, way behind. The energy and environmental issues surrounding desalination have been addressed across the globe, and nobody would ever build these plants more responsibly than Californians. While expensive, desalination has the unique virtue of being the only way to actually create fresh water, as opposed to reuse or redistribution. It is a technology that has been proven at scale for decades and is a necessary part of California's strategy to increase water security. That's a real problem that needs to be addressed.

(2) For $10 billion, build plants to reclaim and reuse 2 million acre feet of sewage per year, supplying two-thirds of California's residential water requirements.

Californians produce about three million acre feet of sewage per year, and only a small fraction is treated to "potable" (drinkable) standards. In California's huge coastal urban centers, the sewage is treated sufficiently to be released into the ocean. A recently constructed plant in Orange County reclaims as indirect potable water 70,000 acre feet of sewage per year, at a cost of only $350 million (a drop in the bucket when compared to the bullet train budget). This is one of the most cost-effective ways to increase the supply of fresh water for Californians.

Bottom line: sewage reuse combined with desalination could fulfill 100% of California's residential water requirements for $25 billion.

(3) For $15 billion, widen and resurface every major interstate in the state.

Tired of that 45-minute commute on your seven-mile drive home? Well, instead of HSR from Fresno to Bakersfield, we could spend $15 billion to add lanes and resurface all of Highway 101, Route 99 and Interstates 5, 8, 10, 15 and 80 (totaling almost 3,000 miles). Hate to be pragmatic here, but where would you put the money?

Bottom line for me, is high speed rail a good place to put what remains of California's public financing capacity? Do we want to keep our income tax rates among the highest in the nation? All for this one project? Doesn't seem like a wise move to me. In fact, seems like a ginormous boondoggle that's just in the early innings.

Lorne Polger is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Lorne was a partner with a leading San Diego law firm, where he headed the Real Estate, Land Use and Environmental Law group. Reach him at lpolger@pathfinderfunds.com.

GUEST FEATURE

Don't Go "Phishing" in the Winter: Holiday Tips for Email and Internet Security

By Brent Rivard, Managing Director

By the time I wake up each morning, my email box has been flooded with documents to sign through DocuSign, tracking notifications from FedEx or UPS, offers for investment from foreign dignitaries, etc. I don't know how I find the time to deal with all of these except… they're all fraudulent spam. The problem is that these scammers are getting more and more sophisticated. They're taking over email accounts of people we know and sending us documents, links and messages that sound like they could be legitimate because they are coming from "trusted" sources.

We all need to be more diligent with how we deal with the electronic "stuff" in our lives. I've been spending a lot of time on cyber-security this year for Pathfinder and the Rivard family and thought I'd pass along some tips and tricks for the holiday season and beyond.

Top 10 Suggestions for Cyber Security (including a bonus phishing section)

1. Use A Secure Internet Connection – Don't Use Public Wi-Fi – We've all heard horror stories of hackers gaining access to phones and computers because users are on a public, unsecured wireless connection. This doesn't just mean "free" public Wi-Fi in airports. It also includes Wi-Fi connections at Starbucks, hotels, etc. If you must use a Wi-Fi connection outside of your home or office, try a virtual private network ("VPN") app/provider or use your cell phone as a hotspot.

2. Be Selective in Sharing Private Information – Each of us has some presence online via social media, LinkedIn or other social media sites. Be sure to limit the private information you share on these sites, such as being on vacation, work trips you are taking, shopping sites that you visit or anything else that a hacker might use to scam you or those around you.

3. Passwords – Multiple, Strong Passwords Are Key – It is a big inconvenience to have to remember multiple, long passwords for different websites. Unfortunately, if you are going to live in a cyber-world, it's a requirement to keep yourself safe. I recommend different passwords for business, personal and online shopping. Most importantly, keep any username/password combination that can access your financial information as strong as possible, including using passwords with over 12 characters. Lastly, make your passwords as random as possible. Hopefully you aren't using "admin" or "password" these days, but your kid's names, birthdates, dog's names, addresses and company names are the first passwords hackers will try to gain access to your accounts.

4. Two-Factor Authentication – Many websites, including Amazon.com, now offer two-factor authentication. Two-factor authentication requires a separate code that will be texted, emailed or delivered through a third-party application to initiate a login to an application or website. I recently went through every shopping and financial login to activate two-factor authentication where available. It's a lot of work initially, but once you do it once, you've increased your online security significantly.

5. Separate Email for Business/Personal – If you are using your work email address as the username for your financial and shopping accounts, I suggest setting up a separate personal email address for business vs. personal and financial vs. shopping accounts. It's another level of security so if a hacker gets your one email/password combination, they aren't able to access everything in your life.

6. Firewalls and Up-To-Date Anti-Virus Software – Make sure that you have activated the latest firewall on your home internet (your internet provider can generally help) and that you are using current anti-virus software on your computer.

7. Enable Alerts for Your Financial Accounts – Each bank, credit card and other financial services company now allows you to establish email and text alerts for various transactions. I recommend that you take advantage of these alerts so you know when there has been a login to your account, passwords have been changed or any material financial transactions have occurred on your accounts.

8. Check Your Online Accounts Regularly – You should be checking your financial accounts at least once a week. By logging in and reviewing activity on your bank and other financial accounts regularly, you have a better chance of catching any unusual activity not picked up by the alerts you've received.

9. Check Your Insurance Policies – If you are a business owner, there are various cyber-liability coverages that you can purchase. As a homeowner, there are some limited coverages generally provided for identity theft that could be useful. If you have an incident occur, it is always good to check with your insurance company to see if you have coverage.

10. Bonus Phishing Section

- **What Is Phishing?** – Phishing is an email attack where criminals try to trick you into giving up information by clicking on a link or an attachment. They are trying to gather personal information including login credentials for your email or other websites.

- **How to Identify Phishing** – The biggest piece of advice here is <u>think before you click</u>. Did you expect the email from the sender? Are there grammar or spelling mistakes? Many phishing attacks originate outside of the U.S. and the senders generally make easy to spot grammatical errors. Also, be suspicious of any email that creates a sense of urgency. If you weren't expecting the email, it's probably not that urgent.

- **Never Enter Your Email and Passwords or Other Credentials** – Most phishing emails want you to enter login credentials into an attachment received in an email or through a link you click on. If you have done this, you should change your email password immediately.

- **Don't Reply to The Email - Pick Up the Phone** – If you have even a little doubt, pick up the phone and call the sender. If it's your credit card company, call the number on the back of your card (not the number in the email – it may be fraudulent also). If you don't have the phone number of the sender, it's probably not that important so delete it! Don't ever reply to the sender to ask if the email is real. Even if it is from somebody you know or a trusted source, the hacker may have control of that person's account and can email you back telling you the attachment or link is legitimate.

- **What to Do If You've Been Phished** – If you suspect that you've been phished, immediately change the password on your email account and any other accounts that use the same login credentials. You should also notify your financial providers (banks, credit card companies and credit agencies) to put a hold on your accounts of flag them for potential fraud.

Wishing you a happy, healthy, cyber-secure New Year.

Brent Rivard is Managing Director, CFO and COO of Pathfinder Partners, LLC. Prior to joining Pathfinder in 2008, Brent was the President of a national wealth management firm and CFO/COO of a one of southern California's leading privately-held commercial real estate brokerage firms. He can be reached at brivard@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

To Rent, Or Not to Rent. That is the Question.

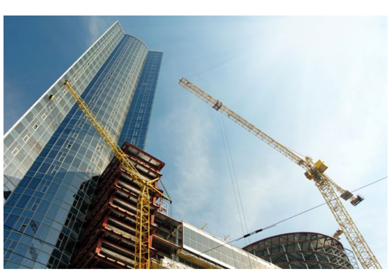
It's more affordable to rent than purchase a home – that's what 76% of renters surveyed by Freddie Mac in October said, up from 65% last year. This view – coupled with steadily rising home prices and low inventory of for-sale housing – is contributing to the historically low U.S. home ownership rate of 63% (down more than 600 basis points since its peak of 69.3% in 2006 and still falling). The homeownership level is even lower in cities in the western U.S., which historically have much higher home prices; in L.A., San Francisco and Seattle, the homeownership rate is already south of 60%.

Another recently released survey of 272,000 apartment residents by the National Multifamily Housing Council (NMHC) indicates that affordability may not tell the whole story since many Americans are renting for mobility reasons or as a lifestyle decision. Approximately 23% of respondents said their primary reasons for renting is "convenience and flexibility" compared with 18% who rent because they do not have enough money for a down-payment.

Even as rents continue to increase and vacancies fall, limiting options, more people see renting as their most affordable option. When combined with greater flexibility and lack of responsibility for maintenance, renting is quickly becoming a preferred, longer-term housing option for more and more Americans.

Not Enough Cranes in Sky

About 37,000 new apartments have been built in the greater Los Angeles metropolitan area (L.A., Orange, San Bernardino and Riverside Counties) since 2015 and another 36,000 units are currently under construction, according to a recent Costar report. The building boom is not exclusive to Southern California; rental data firm RealPage, Inc. reports that developers are on track to complete 350,000 new apartments in the U.S. in 2018.



Supply headlines such as these provide a false sense of comfort for renters seeking relief from the stifling rent increases of the past several years. That's because the number of units being constructed barely keeps up with natural population growth and new household formation and because units being constructed are predominantly luxury, Class-A apartments concentrated in downtown central business districts while the apartments needed are primarily moderately-priced, Class-B units for working-class people.

Why are there so few total apartments and more luxury, Class-A units being built instead of moderately priced units? In Pathfinder's markets in the western U.S. – places with terrific job growth, where millennials are flocking, like San Diego, Seattle and Portland – land is scarce and it's difficult to secure entitlements because of community opposition. And, if you can find land and secure entitlements, construction labor and materials are pricey and costs are fundamentally the same whether you're building luxury, Class-A apartments or more affordable, Class-B apartments. To make land acquisition and new construction costs pencil, developers must charge premium rents. (Pathfinder's strategy continues to focus on renovating 20 to 40-year-old Class-B apartments and providing tenants with quality properties at rents well below those of the new, Class-A properties.)

The supply and demand imbalance in major western U.S. cities – these cities have more population growth and household formation than there is new housing being built – indicates that more apartments need to be built to meet demand and suggests that renter demand will remain high for the foreseeable future.

60 is the new 25?

From 2009 to 2015, the number of renters above 55 years old increased 28%, according to Census data recently analyzed by RentCafe. In addition, over five million baby boomers are expected to become renters by 2020, according to a 2016 analysis by Freddie Mac. The trend suggests a change in the historical living preferences between Millennials and Baby Boomers (i.e. Millennials rent in downtown urban cores and

Baby Boomers own in the suburbs) as both groups seek amenity-laden apartment communities in hip and cool urban areas. Developers and landlords have taken notice and begun to incorporate amenities including comfortable community gathering areas and senior-friendly retail shops into their projects. Contributing to the trend is the increase in suburban apartment development, making the transition from owning to renting for Baby Boomers more convenient.

This trend is adding to the U.S.'s already historically high apartment demand and rental rates as older renters are now competing for apartments in areas that were typically exclusive to a younger demographic.

TRAILBLAZING: THE CHARLESTON, SACRAMENTO, CA

Reinventing Southern Charm in California's Capital

The Charleston's Unique, Southern-Style Architecture

Sweet iced tea, homemade biscuits, tree-lined streets and down-home, put-up-your-feet hospitality – when you think of the South, these are probably some of the first things that come to mind. Not exactly your mental picture for Sacramento, California.

This spring, when we toured Savannah Court Apartments, we were captivated by the property's southern-style architecture, large patios and tranquil park-like setting – a slice of the ol' south tucked away in California's Capital.

Savannah Court – which we've rebranded "The Charleston" – is a 1986-vintage, 195-unit community on nine acres. It includes 24 buildings consisting of 107 one-bedroom/one-bathroom units, 44 two-bedroom/one-bathroom units and 44 two-bedroom/two-bathroom units averaging 700 square feet. The interiors, a bit dated in design, feature efficient floorplans, in-unit washers/dryers, central heat and air, fireplaces, walk-in closets and spacious private patios. Amenities include a fitness center, tennis court, swimming pool and spa. The property is adjacent to a grocery-anchored shopping center and near the Natomas Marketplace, home to more than 35 specialty stores and restaurants. Residents can also enjoy recreational activities like fishing, rafting and biking along the nearby American River Parkway.

Sacramento's robust rental market, which ranked first in the nation in 2016 for its 12.8% rent growth, had an average vacancy of just 2.5% in September. These strong fundamentals are expected to continue, with rent growth of 7.0% expected in 2017. *(CBRE Econometric Advisors)*

Kitchen – Before Renovations

Kitchen – After Renovations

Our business plan is to implement professional management, remedy deferred maintenance items, renovate and modernize the unit interiors and common areas, rebrand and refresh the marketing and add several amenities (including an expanded gym, BBQ area and pool lounge) – all while embracing and enhancing the property's southern-style architecture. To date, we have transitioned to our preferred management company, commenced work on deferred maintenance, completed our first apartment interior renovation and are working with our designers and architect on the common area renovation plans. We anticipate completing common area renovations in mid-2018.

The South has a particularly warm and welcoming hospitality and as we transform the Charleston, we look forward to providing that same welcome to our residents.

NOTABLES AND QUOTABLES

Imagination

"Logic can take you from A to Z. Imagination can take you anywhere."

- Albert Einstein

"The man who has no imagination has no wings."

- Muhammad Ali

"Laughter is timeless, imagination has no age, and dreams are forever."

- Walt Disney

"The power of imagination makes us infinite."

- John Muir,
Scottish-American Author

"The world is but a canvas for our imagination."

- Henry David Thoreau

"What is now proved was once only imagined."

- William Blake,
English Poet

"Invention requires both disciplines, strict common sense and wild imagination."

- Vanna Bonta,
Italian-American Author

"Imagination is more important than knowledge."

- Albert Einstein

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Investing involves risk of loss and you should be prepared to bear investment loss, including loss of original investment. Real estate investments are subject to the risks generally inherent to the ownership of real property and loans, including: uncertainty of cash flow to meet fixed and other obligations; uncertainty in capital markets as it relates to both procurements of equity and debt; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; changes in applicable laws and regulations (including tax laws); uninsured losses; delays in foreclosure; borrower bankruptcy and related legal expenses; and other risks that are beyond the control of Pathfinder or the General Partner. There can be no assurance of profitable operations because the cost of owning the properties may exceed the income produced, particularly since certain expenses related to real estate and its ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. Moreover, although insurance is expected to be obtained to cover most casualty losses and general liability arising from the properties, no insurance will be available to cover cash deficits from ongoing operations.

Please add msiegler@pathfinderfunds.com to your address book to ensure you keep receiving our notifications.