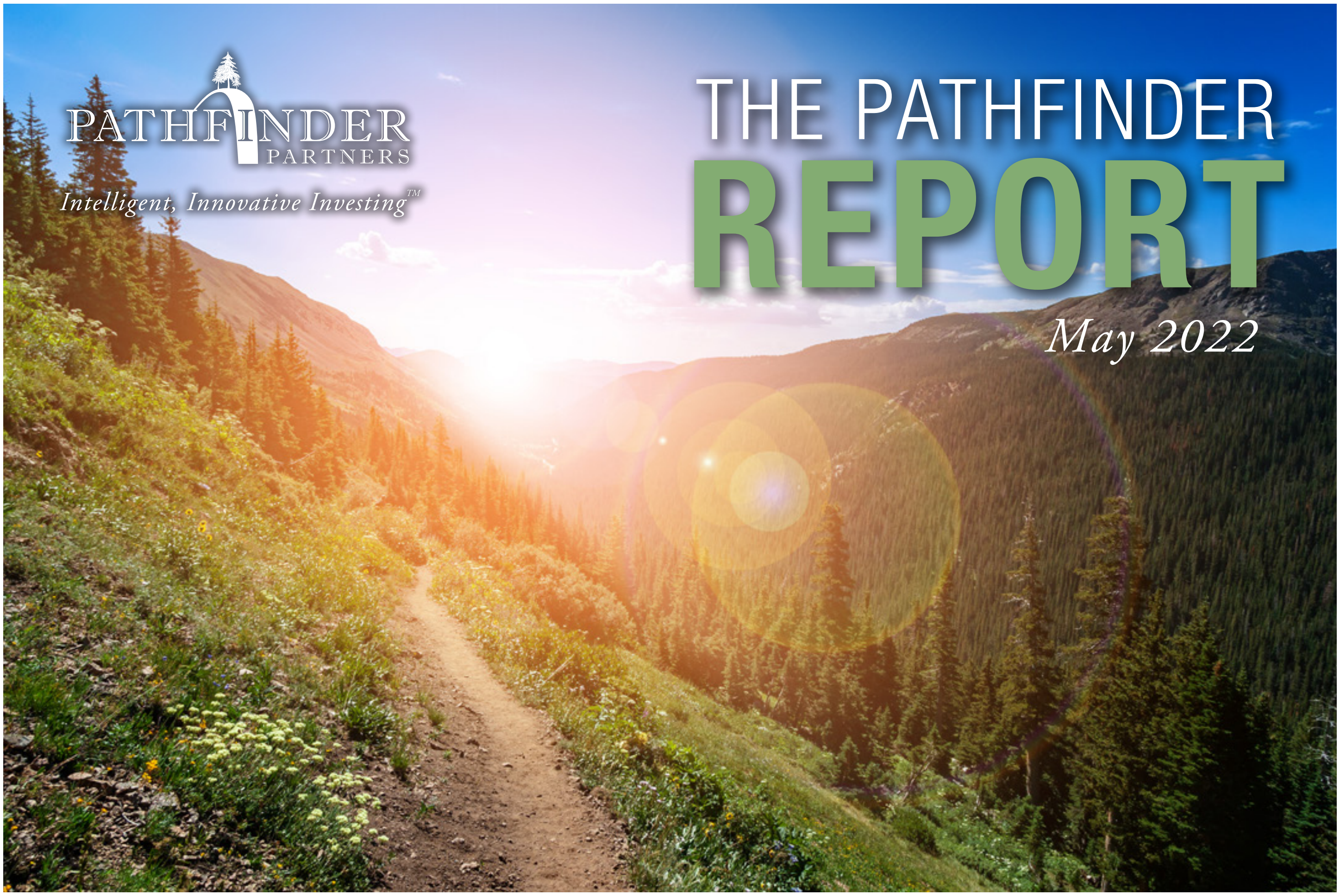
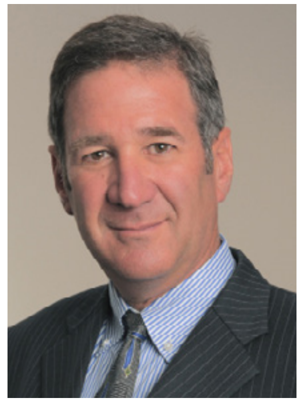



## IN THIS ISSUE

# CHARTING THE COURSE

## *The Fed is Between a Rock and Very Hard Place*

*By Mitch Siegler, Senior Managing Director*



Mark Twain said that history doesn't repeat itself but that it often rhymes. Is it just us or are red-hot inflation, surging gasoline prices and rising interest rates making it feel like the 1970s again? The last time prices were rising this fast, gas lines and double-digit interest rates abounded, men sported lambchop sideburns and leisure suits, women wore pantsuits and platform shoes, and hula hoops and pet rocks were all the rage. Who wants to return to that?

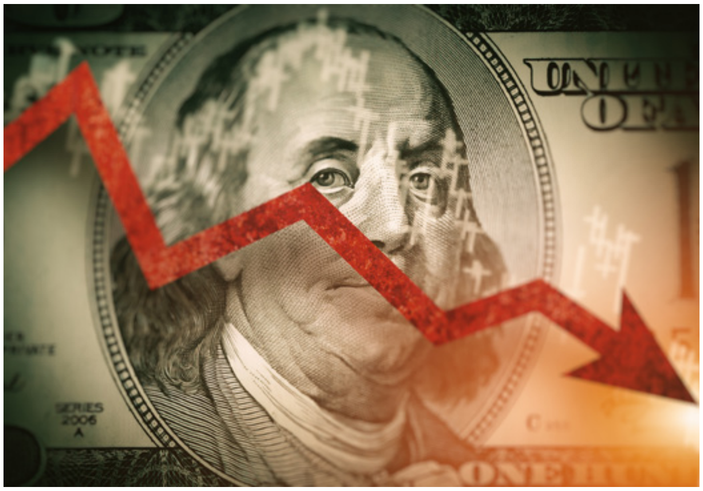
### Surprise, Surprise, Surprise

When the pandemic hit in March 2020, the Fed founded itself in uncharted territory and bobbed and weaved well. During the past year, the Fed has been slow to act, even a bit complacent. Last April, the Fed dubbed inflation "transitory", messaging which continued until December. Most grocery shoppers or owners of cars with internal combustion engines would have said 'it just ain't so'.

On April 29, there was an astonishing economic announcement. That day, we learned that Gross Domestic Product (GDP) growth didn't just slow in the first quarter of 2022; GDP *shrank* -0.4% or at an annualized rate of -1.6%. Another quarter like this, say economists, and we're officially in a recession.

Now, very few experts saw that one coming. Most economic forecasts called for 1% quarterly (4% annual) economic growth – *not* a 1.6% decline. And that decline was before the supply shocks from China's latest Covid-zero shutdowns, the pain still to come from Russia's Ukraine invasion-induced oil price shock and a notable slowdown in consumer spending, as higher prices and interest rates bite average Americans. Going out on a limb, the portents for second quarter economic growth may not be super-duper.

Let's put the first quarter economic slowdown into perspective. Growth in the December quarter was 1.7% – an annualized rate of 6.8%. That's an order of magnitude higher than the trend line for economic growth during the past decade and it's simply not sustainable. A single quarter does not make a trend make but the dramatic and rapid slowdown is extraordinary. When you combine slow growth with the highest inflation in 40 years, it starts to feel like stagflation. The '70s again.



**What Goes Up…Must Come Down…**

Think about the massive economic stimulus of the past couple of years like flooring your car's accelerator. To slow the economy and squelch inflation, the Fed will need to tap on (or slam?) the brakes. Optimists at the Fed and in the Administration have been hoping to thread the needle by easing up interest rates without tipping the economy into a recession – the elusive "soft landing". The Fed's track record in engineering soft landings is not stellar. The hope, as usual, is that this time will be different.

In late 2021, the consensus thinking was that three or four 25-basis point increases in interest rates would do the trick. Now, the consensus is to prepare for three 50-basis point increases by July with several more 25-basis point bumps in the fall. The first 50-basis point increase was announced on May 4. (The Fed hasn't boosted rates by 50 basis points since 2000. A basis point is 1/100 of a percentage point.)

The Fed also has $9 trillion in mortgage-backed and Treasury securities on its balance sheet, much of which will be sold in the months and years ahead. In its May 4 announcement, the Fed committed to selling $47 billion per month through August and $95 billion per month thereafter. Shrinking the Fed's balance sheet will also hit financial markets. J.P. Morgan forecasts $1.1 trillion in bond sales this year; its derivatives team thinks four years of bond sales are equivalent to another 210 basis points in interest rate hikes. Is that the smell of burning brake pads?

**A '70s Perspective**

Economists believe the Fed's benchmark rate – the Fed Funds rate – would need to rise to about 3% to reach the "neutral" level, where it is neither stimulating nor restraining growth. If inflation has really peaked, that might get the job done. But many believe inflation will prove sticky and higher (much higher?) interest rates may be needed to squash rising prices. When he was appointed Fed Chair in 1979, Paul Volker was forced to take very tough measures to tamp down inflation because it was allowed to simmer for so long. Under Volker, the Fed Funds rates peaked at 20%.

This Fed, under Chair Jay Powell, has taken a measured approach. The Fed's jawboning has already generated a major reaction in financial markets. The 10-year Treasury rate, 1.5% at the end of 2021, has moved above 3.0% in four months. As the futures market is anticipating a 3.0% Fed Funds rate by year-end (up from 0.75% to 1.00% today), the 10-year Treasury could exceed 5.0% by December.

This speed and magnitude of interest rate increases have spooked investors. Stock prices have fallen sharply this year with the S&P 500 down 12.5% and the tech-heavy NASDAQ down 20% in the four months through April. There's been further pain for stock investors in the wake of the Fed's May 4 interest rate announcement. The monthly mortgage payment required to purchase a median-priced home has increased 45% in the past year, from $1,165 to $1,690, according to investment bank Piper Sandler. Both the equity and housing markets are cooling. Rising prices, slowing growth and declining asset values – the '70s again.

**Two Key Questions for the Fed: Has Inflation Peaked and Are Supply Shortages Easing?**

The Central Bank's moves to boost interest rates will curb demand. However, supply chains operate largely independently. Whatever actions the Fed takes to raise interest rates or sell securities won't change labor force participation, factory output, container ship capacity, truck driver availability or the myriad other factors crimping the supply side.

Fed hawks agonize over the fact that the central bank has been slow to acknowledge the severity of supply chain and labor shortages which led to price spikes and smoldering, unsustainably high inflation rates. Fed doves argue that inflation, which was running above 8% in March compared with the prior year, has peaked and should be far lower later this year. We'll remind you that these are some of the same folks who characterized inflation as "transitory" as late as December 2021 and fear that this 'go slow' approach may be wishful thinking. Count us in the camp which believes that beating back inflation will require aggressive monetary policy and a soft landing may no longer be in the cards.

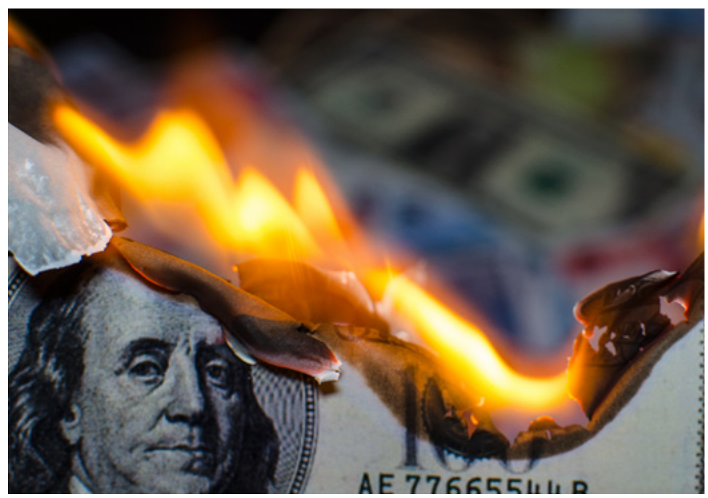
Historically, half measures by the Fed haven't solved the problem of rising prices. When the Fed moves too little or too slowly, it's like a patient taking just half of the doctor's required antibiotic dosage or only taking the medicine for a portion of the recommended time; the bacteria multiplies and the infection is more difficult to beat back later.

**So, How to Read the Tea Leaves?**

On the surface, economic growth still looks solid. Peel back the onion, though and you see negative first quarter GDP and declining wages on an inflation-adjusted basis. Also, consumers' stimulus checks from 2020-2021 have been largely spent so the savings that could cushion a slowdown aren't what they were. Both retail spending and the producer price index for private capital equipment, while strong on the surface, have been flat or negative when adjusted for inflation.

The housing market, a bright spot in the economy, accounts for about 20% of GDP and 40% of the consumer price index (CPI). Homebuyers are now staring at rates averaging 5.5% for 30-year, fixed-rate, conforming mortgages, up from 3.1% in early January. While that's a far cry from the mid-teens rates of the 1970s, it's well above the 2.5% to 3.0% mortgages of the past few years. Mortgage rates could top 7.0% by year-end if forecasts for Fed moves hold. That will surely slow home price appreciation, but home prices will likely remain elevated given the shortage of inventory (reflected in the 15.7% year-over-year home price appreciation in the first quarter). High home prices and mortgage rates crimp homebuying and we don't think the Fed can fundamentally slow the economy without also cooling the housing market. Fed moves to sell its mortgage-backed securities will put additional pressure on mortgage rates and payments.

Another consideration is the increasing cost of new home construction, up 25% to 30% in many markets. Homebuilders report that just a small portion of these higher costs have been passed along to homebuyers though that's begun to change, and consumers are preparing for higher new home prices as a result. As home prices and mortgage rates rise, more potential homebuyers shift to rentals, boosting demand for apartments and driving rents higher. All told, higher home prices, mortgages and rents add fuel to the inflation fire.



Conventional wisdom sees the Fed slowing the economy without causing a recession. A few contrarians think the Fed has waited too long to move and there's now too much money sloshing around to soak up quickly. Deutsche Bank, the first major bank to predict a recession, believes the Fed is in a tough spot and we're not only looking at a recession but a severe downturn. The bank's chief economist, David Folkerts-Landau says "there are good reasons to expect inflation will continue to surprise to the upside…we regard it as highly likely that the Fed will have to step on the brakes even more firmly and a deeper recession will be needed to bring inflation to heel." He forecasts a 5% to 6% peak in the Fed Funds rate next year (which would impute a 7% to 8% rate on 10-year

Treasuries and double-digit 30-year, fixed rate mortgage rates). That's about double the consensus view. Deutsche Bank thinks there are risks to its forecast and rates could end up at much higher levels if all doesn't go smoothly.

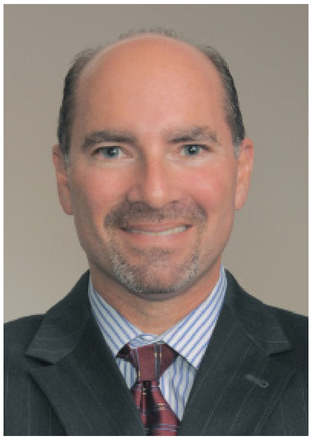
We've spent many years in the trenches of the housing market and written for more than a year about the folly of the Fed's "transitory" inflation talk. As such, it's hard to be too ebullient about the Fed's prospects for threading the needle and we remain skeptical of the peak-inflation (and soft landing) arguments. Rents, a significant component of the CPI, generally lag home prices by 12 to 18 months. Market rents ended 2021 up 13.5% from a year earlier and many tenants haven't yet seen the full impact of the tighter housing market. Rents will likely be higher in December than now in any case. Upward pressures on rents will remain as both new and resale homes become less affordable, and even more people shift to renting. And don't expect substantial new supply of apartments to solve the problem; rising construction costs puts ever more pressure on the supply side. The housing supply/demand imbalance continues. That's reason #72 why we remain bullish about the multifamily housing sector.

*Mitch Siegler is Senior Managing Director of Pathfinder Partners. 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. He can be reached msiegler@pathfinderfunds.com.*

# FINDING YOUR PATH

*Rooting for the Underdog*

*By Lorne Polger, Senior Managing Director*



As a kid in Canada, I found myself rooting for the underdog. I'm not sure if this was due to my family experience as immigrants, the quiet Canadian underdog mentality, or some other element of my personality. But, except for always rooting on my cherished Montreal Canadiens (hardly the underdog in those days), I enjoyed the little guy upsetting the big guy. I even enjoyed watching the animated *Underdog* television series which ran on NBC on Saturday mornings from 1964-1967. Who can forget the famous theme song? "When criminals in this world appear, and break the laws that they should fear, and frighten all who see or hear, the cry goes up both far and near for Underdog! Underdog! Underdog!"

I've been thinking about the underdog in the context of the current conflict between Russia and Ukraine. My ancestry is Ukrainian. All four of my grandparents were either born in Ukraine or to parents who were born there. The various Russian "pogroms" (an organized massacre of a particular ethnic group; Jews in Russia/Eastern Europe in the late 19th and early 20th centuries) led them and their families to seek better and safer lives in the U.S. and Canada, like so many before them and so many since. We have a video of my maternal grandmother telling the harrowing story of her family's multiyear journey from Ukraine to Canada, complete with maps, props, and stories of sneaking under fences and across lakes in rowboats during the night to avoid the dreaded border guards. So, there's that part of it.

While, for those reasons, it may be personal to me, why do we care so much about this particular conflict? And why is it important to root for (and support) Ukraine now, other than Zelensky's role as a newfound superhero? Many reasons come to mind.

First, we feel a need to stop the unchecked aggressive behavior of the Putin regime/dictatorship. For if we don't stop him here, who's next? He's already made Belarus a satellite and annexed Crimea. The most vulnerable could be those who aren't members of NATO or the European Union, and thus alone and unprotected – including Ukraine's neighbor Moldova and Russia's neighbor Georgia, both formerly part of the Soviet Union – along with the Balkan states of Bosnia and Kosovo. But even NATO members, like the Baltic countries, Latvia, Lithuania and Estonia, could be at risk too, as they're all within "artillery range" of Russia's borders. The U.S. and E.U. countries have democratic forms of government that, theoretically, self-police this type of aggressive behavior. Not so with Russia (or China for that matter, but that is a longer topic).


Second, the war is motivating the E.U. countries to wean themselves from their dependence on Russian oil and gas and to boost defense spending. Today, Germany and other European countries are highly dependent on Russian energy but they're already taking steps to dramatically reduce their imports by year-end. It took the U.S. three years to enter World War II; it took Germany three days after Russia's invasion to dramatically boost its defense spending. Critical income streams that the Kremlin has relied on to pay for both guns and butter may now be threatened. In early May, Ursula von der Leyen, the president of the European Commission, unveiled a proposal to impose an E.U.-wide ban on Russian oil imports, one of Moscow's main sources of revenue. The proposed embargo would give member states up to six months to phase out purchases of Russian crude, and until the end of the year to stop buying all refined oil products. The ban would apply to all Russian oil traded both via ports and pipelines. The E.U. is Russia's top oil client, spending more than $73 billion on Russian oil and gas products last year.

Looking ahead, it is looking more precarious for Russian energy exports and, by extension, the overall Russian economy. Ordinary Russians are feeling the pain of having bank withdrawals curtailed, credit cards issued abroad deactivated and, for those who were employed by foreign companies, permanent layoffs. Not to mention no more lattes at Starbucks® or Big Macs at McDonalds®. Not so good for ordinary Russians. Perhaps something Putin doesn't pay much attention to, but at some point, that could change.

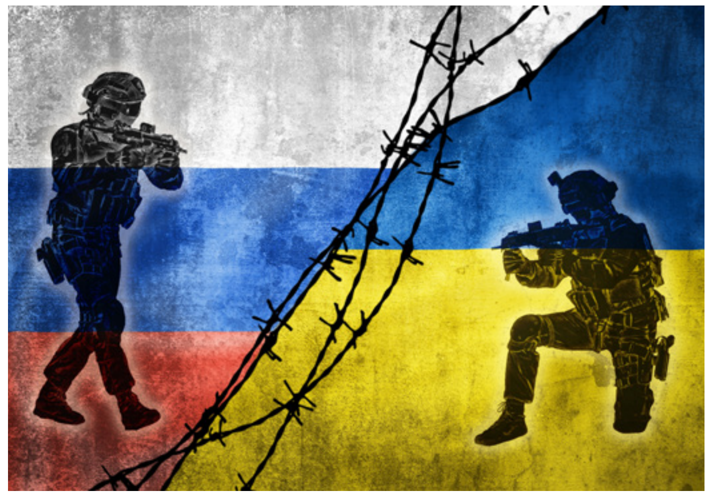
Third, Russia's invasion has motivated Finland and Sweden to join NATO. Officials in both countries have expressed growing alarm over Russian intentions in northern Europe, and recent public opinion polls in both countries now show majorities in favor of joining NATO. Does Putin worry? Nah. He's got ice in his veins and is the ultimate cold war spy strategist. Should he though? You betcha. Finnish and Swedish membership would add significant resources to NATO along a very long border with Russia while also creating further pressure for Russia in the Baltic Sea.

Fourth, the Russian invasion of Ukraine creates risk for the global economy. The U.S. and E.U. economies remain relatively vibrant, but they're also susceptible to recession caused by the oil shock along with continued supply chain disruptions, some exacerbated by the conflict. We are increasingly reliant on global trade, and a continuation of the conflict could have a significant negative impact on that. As we know, the continued expansion of the economy ties in to so many different elements in the U.S., including employment and housing.

Fifth, and most importantly, we're motivated by protecting the Ukrainian people from the devastating effects that war brings. The daily scenes of death and destruction across so many Ukrainian cities is difficult to watch on the nightly news. It must be worse than we can imagine.

So, there are important reasons to both root for and support Ukraine and its people. But at what expense to us? Burned by the long foreign wars in Iraq and Afghanistan, there is clearly little appetite in the U.S. to see more of our soldiers pay the ultimate price.

At the end of April, President Biden called for a giant $33 billion package of military and economic aid to Ukraine (more than doubling the level of U.S. assistance to date). The President asked Congress to give immediate approval for spending that would include over $20 billion in military aid, involving everything from heavy artillery and armored vehicles to greater intelligence sharing, and more anti-tank and anti-aircraft missiles. The President also requested $8.5 billion in economic aid to Kyiv and $3 billion in humanitarian relief, as well as funds to help increase U.S. production of food crops and strategic minerals to offset the impact of the war on global supplies. The request is larger than the entire defense budget of Ukraine.



In addition, since Moscow invaded Ukraine on Feb. 24, the Biden administration has reportedly deployed more than 100,000 U.S. troops to NATO-member countries. I suspect the Biden administration is not yet done in either category.

These are real costs. These are dollars that will not flow into infrastructure or social programs in the U.S. But, for the reasons noted above, they are probably equally essential to our long-term protection, health and security.

The human loss of any war is tragic. Not to intervene when we know that mass murder is imminent could be regarded as irresponsible. But what is our ethical duty to another democratic nation, even one halfway around the world? Could we do more than we have done so far? Should we?

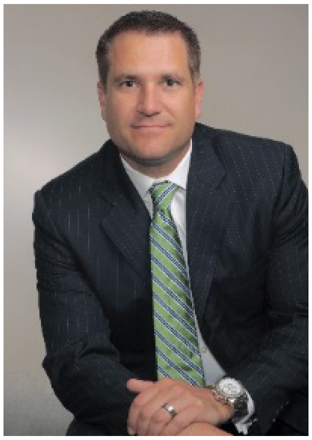
I'm rooting for the underdog on this one.

*Lorne Polger is Senior Managing Director of Pathfinder Partners. 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. He can be reached at [lpolger@pathfinderfunds.com](mailto:lpolger@pathfinderfunds.com).*

# GUEST FEATURE

## *Stopping Hackers in their Tracks: How You Can Stay Vigilant to Guard Against Cyber Threats*

*By Brent Rivard, Managing Director*



How many of you have received an email request to take money from a foreign prince in the past 30 days? How about notifications that your password is about to expire or your account has been locked?

I receive dozens of attempted attacks through email each week. In today's world, companies utilize greater connectivity to run their businesses, manage increased volumes of data, and work remotely, which has made cybercrime a heightened risk for companies and an unfortunate consequence of our digitally connected world. When asked why he robbed banks, Willy Sutton quipped "because that's where the money is." Investment managers and other financial institutions are particularly desirable targets for cyberattacks because that's where the money is, and hackers focus on stealing sensitive data to gain a financial advantage.


We have always taken cybersecurity seriously at Pathfinder, and robust policies and procedures to secure both our assets and our clients' private data have always been a priority. As cyberattacks take various forms and become increasingly sophisticated, it is essential to remain vigilant and institute appropriate preventative controls and monitoring procedures. While we have had measures in place to guard against cybercrime for some time, we are continually improving our processes to keep up with cybercriminals as they become increasingly innovative. We thought we'd share some strategies we take to protect our (and steps you can take to protect your) data and assets.

**Review and stress-test your cybersecurity protocols**

Pathfinder recently enlisted a third-party cybersecurity firm specializing in private equity and real estate to conduct a complete cybersecurity audit. The audit assessed primary risk areas; data breaches, third-party vendors, and wire fraud and examined threats in those areas, including looking for data breaches by stress-testing our network to identify weaknesses and sending test phishing emails to our employees. We analyzed third-party service providers' cybersecurity frameworks for continuity with Pathfinder's systems, as continuity creates a network that is far less vulnerable to attack and minimizes gaps and vulnerabilities in our collective systems. We also reviewed our protocols for capital calls and wire instructions to assess wire fraud risk and how we communicate with clients to prevent cybercrime in these areas.

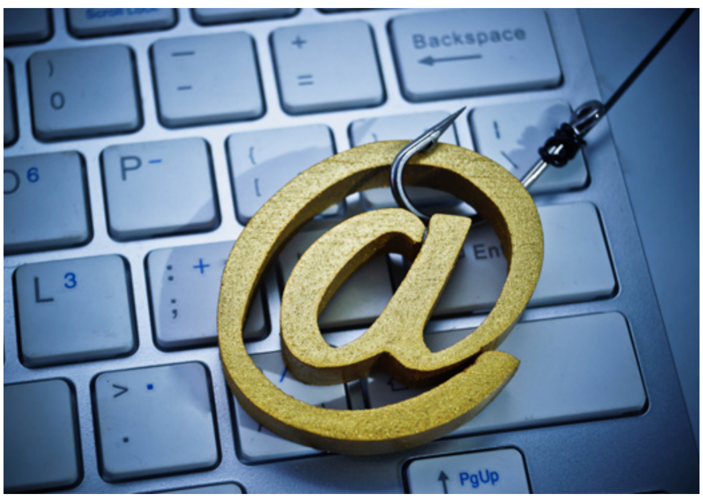
The firm's recommendations included biannual training for our employees, improved investor communications around our capital call procedures, and wiring instructions, including sharing what capital call or wire instructions from Pathfinder look like so clients don't act on a fraudulent one. Our investors received an email from us detailing those procedures. We also established a cybersecurity action plan should a breach occur. Working with a third-party cybersecurity firm helped us establish a framework that reduces the potential for data breaches or cyberattacks and implemented a process to manage and mitigate a potential breach.

**Know your weak spots or as we like to call it, "how they get you."**

Email is the most common way attackers infiltrate a company's systems and access data. Most breaches involve a user unwittingly clicking on dangerous links or opening harmful attachments that install malicious software (known as malware), enabling the disclosure of confidential information and preventing legitimate users from accessing critical systems and data.

When it comes to cybersecurity, human error represents the greatest weakness, and criminals know this. That's why education, training, monitoring, and communicating with our employees and investors about the latest in cybercrime is our best defense against these attacks. So how can you protect yourself and your data? Here are some tips for spotting a scam.

**Email Fraud or Phishing.** These methods are used to steal user data, including login credentials and credit card numbers. It occurs when an attacker, masquerading as a trusted entity, dupes a victim into opening an email or text message. These can include an email out of the blue requesting payment, an email from the boss asking you to purchase gift certificates, an encrypted email asking you to log in, and an email with an attachment or link (e.g., malicious code.) The best rule of thumb is that if you weren't expecting that email or text, it's probably a phishing attack. I always delete messages I wasn't expecting. If somebody really needs me or there is a problem, they'll call me.



**Out-of-Date Software.** Regular patching upgrades for out-of-date software are critical because they are about more than just getting the latest features for your device or computer. They have essential updates that keep you – and your device – safe from cyber threats. You can stay cyber-secure by ensuring your operating system is always up to date. This is not only important for businesses but also your home and personal computers and phones.

**Credential Harvesting.** These emails attempt to trick users into entering their credentials into a fraudulent website to steal their login information. After entering the credentials, the user is often redirected to a legitimate webpage. Credential harvesting can be prevented through multi-factor authentication (an example is a 6-digit code texted to your phone). Multi-factor authentication methods, via a text or email, thwart a single password from granting access to critical data and assets.

**Spear Phishing.** This is a type of phishing campaign directed to specific individuals or has official-looking logos from legitimate organizations and other identifying information taken directly from trusted websites. The concept is like phishing, except that instead of sending random emails to millions of potential targets, cyber attackers send targeted messages to a few select individuals. The cyber attackers research their intended targets by reading their LinkedIn or Facebook accounts and create a highly customized email that appears relevant to the targets. This way, the individuals are more likely to fall victim.

**Staying a step ahead of cybercriminals' ingenuity**

No matter how robust a company's preventative access controls, monitoring protocols, and data protections are, these measures are just the first line of defense for preventing and mitigating most cyber-attacks. Workplace procedures around cybersecurity and data breaches frequently change to keep up with cybercriminals' ingenuity, and it is critical that companies and their employees stay on top of it. An evolving paradigm is "zero trust," which is essentially a set of protocols that takes nothing for granted and brings additional security steps that significantly reduce the opportunities for human-error breaches.

When making investment decisions, investors should consider a manager's cyber preparedness, which is key to fostering a healthy cybersecurity environment, being proactive about solutions and staying aware of best practices. There's no underestimating the cunning of cybercriminals, especially in financial services, where there's so much at stake. In this constantly evolving environment, Pathfinder tries to bring the best possible defenses to bear and continues to make meaningful investments to ensure we have robust cybersecurity protections and practices.

*Brent Rivard is Managing Director, CFO and COO of Pathfinder Partners, LP. 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

**Apartment Construction is Back – But is it Enough?**

Supply chain disruptions have impacted many industries – including apartment construction, which delayed the delivery of much needed apartments in 2020 and 2021. As markets return to pre-pandemic conditions and owners and contractors adapt to increases in material and labor costs, an increase in new apartment deliveries is expected in 2022. According to a recent study by *RealPage*, 426,000 apartments will be completed this year, more than any year since the 1980's.

**Phoenix**, the largest metro in Arizona at nearly 5,000,000 residents, is anticipated to deliver over 21,000 apartments in 2022, one of only two U.S. markets set to build more than 20,000 units this year. The increase in housing supply is much needed – Arizona posted the fourth largest population growth of any state in 2021. While institutional investment capital has historically skewed to coastal markets due to strong demand and consistent rent growth, the outward migration of renters from coastal cities to inland metro areas has caught the attention of multifamily developers and spurred growth in new construction in these areas. The influx of new residents has also put upward pressure on rents. Between 2016 and 2020, rents in metro Phoenix grew 80%, creating robust demand for new supply.

**In Denver**, construction delays have slowed the delivery of new apartments with 8,000 and 11,000 units being delivered in 2021 and 2022, respectively. Supply is increasing in 2022, according to *Colliers International*, with over 23,000 apartments currently under construction. Denver's year-over-year rent growth in the first quarter of 2022 was over 11%, suggesting that demand is outpacing supply.

While an increase in new apartments is a step in the right direction in resolving the housing crisis, the country continues to experience a massive shortage in housing (estimates range from 3,800,000 to 5,500,000 units) with demand growing steadily through new household formations. Despite the upcoming increase in new supply, renters across the U.S. should expect rents to continue to rise for the next two years with many experts forecasting 5% to 7% annual increases.

**Apartments as an Inflation Hedge**

Inflation continues to climb, with the Consumer Price Index hitting 8.5% at the end of March. The Fed has increased interest rates twice already this year – with additional increases coming. As the Fed moves to slow the economy, investors are eager to preserve the value of their assets and hedge inflation.

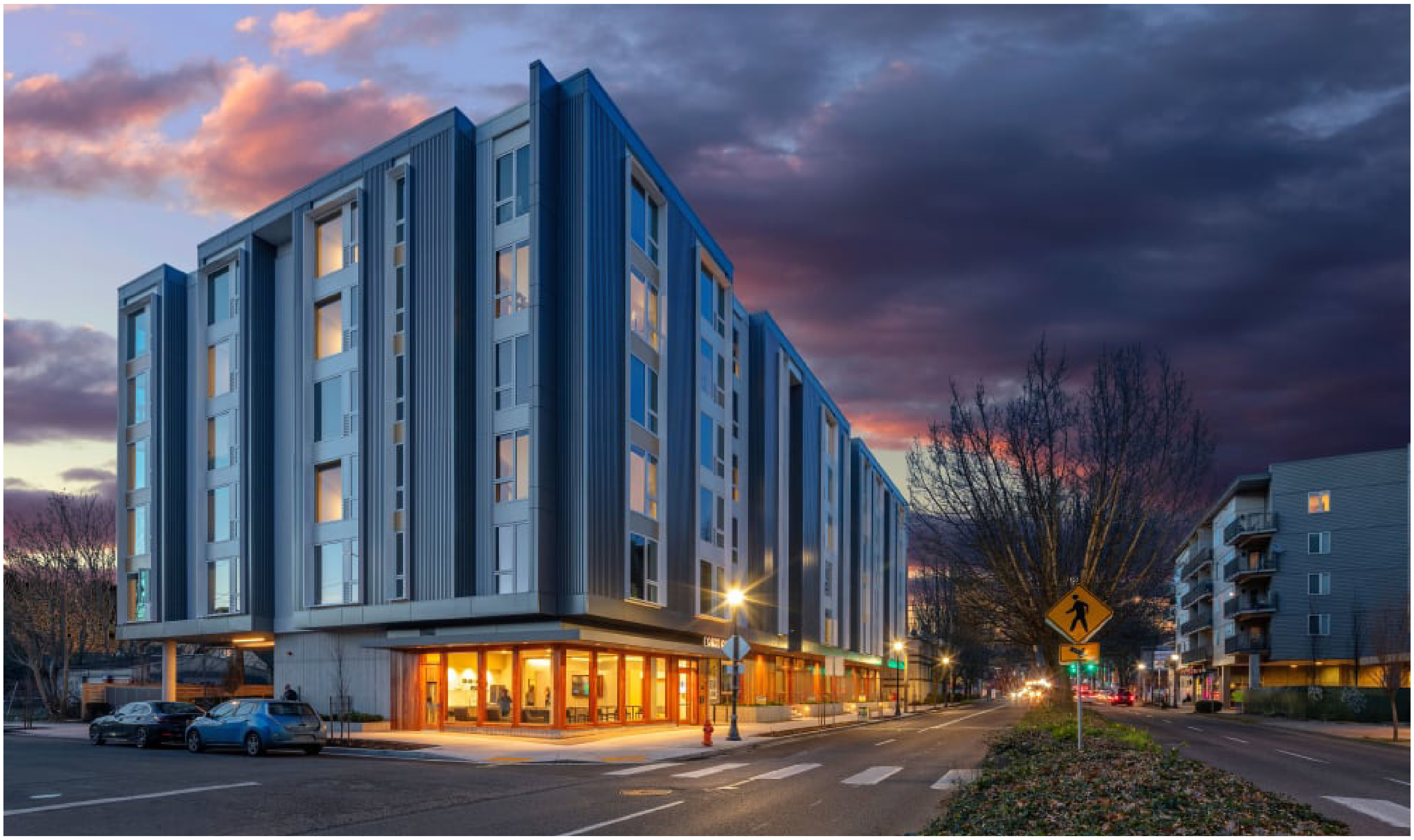
Historically, multifamily real estate has been an exceptional hedge during inflationary periods. Because housing is a necessity – "you can't sleep on the internet!" – many people prioritize paying rent over other more discretionary expenses, creating a stable income stream that generally tracks inflation closely. The industry's short-term lease durations, generally 12 months or less, offer multifamily owners the ability to mark rents to market, keeping pace with and sometimes even outpacing inflation. Additionally, apartment owners with fixed-rate mortgages receive higher levels of rental income as their leases renew while their mortgage expenses remain constant.

Meanwhile, the fundamentals for multifamily real estate remain exceptionally strong. National occupancy rates are 94.2%, up a full percentage point since the onset of the pandemic coupled with rent growth of approximately 13% during 2020-2021. Fewer Americans are able to qualify for a mortgage today due to the skyrocketing cost of for-sale housing and higher interest rates, further increasing demand for apartments.

According to *RealPage*, occupancy at class-B apartment properties, which house most Americans who rent, is at 96.4%, essentially full occupancy when accounting for the time it takes to clean and re-rent vacant units. Rent growth was stifled during the early stages of the pandemic but the swift rebound has led to unprecedented rent growth in 2021 and early 2022. While the inflationary and interest rate headwinds are present, the fundamentals for the multifamily sector are very strong and appear well positioned to remain so.

# TRAILBLAZING: FORTYONE 11, PORTLAND, OR

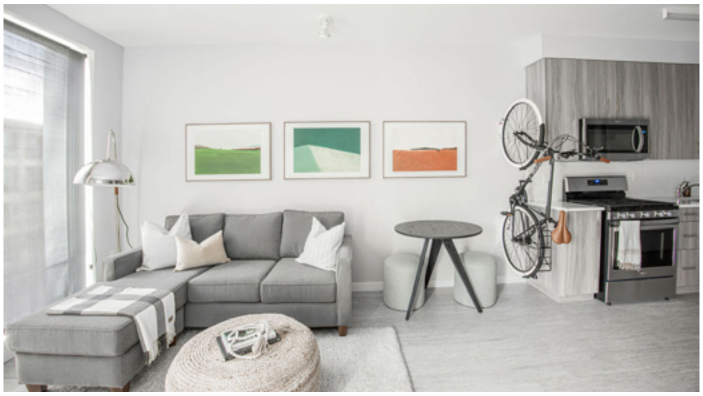
*"Quality Living for Eclectic Portlanders"*



Just northeast of downtown Portland lies the Alberta Arts District, an eclectic neighborhood which is home to independently owned boutiques, cafes, art galleries, music venues and breweries. Arts District residents are a mix of local families, working professionals and Millennials and Gen Zer's. In 2021, the district was ranked as one of best neighborhoods in Portland by *Apartment Guide* and the second-best neighborhood in Portland by the travel website *EmbraceSomeplace.com*. This year, the district was recognized as one of Portland's best up-and-coming neighborhoods by the moving company *Bellhop*.

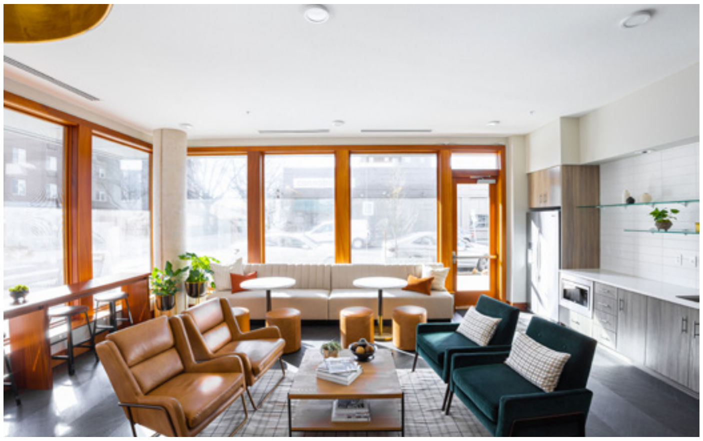
Last spring, while scouting out opportunities during the pandemic, we followed Portland's artistic culture to the Alberta Arts District and found a neighborhood where street murals, vinyl records and recycled denim are commonplace fixtures. We also found FortyOne 11, our first acquisition in Pathfinder Partners Opportunity Fund VIII, which we raised in December 2020.

FortyOne 11, built in 2019, is a 112-unit mid-rise apartment community just a ten-minute drive to the city center and walking distance to light rail and bus transit. The surrounding area is highly walkable, and the property is less than a mile from Williams Avenue, a vibrant corridor known for its local restaurants, unique shops and bustling nightlife.

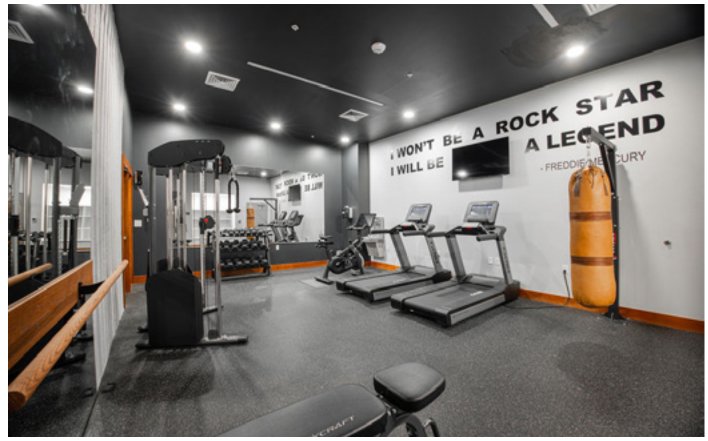


*FortyOne 11 – Model Unit*

FortyOne 11 is situated on a half-acre parcel and includes a mix of studios and one- and two-bedroom apartments averaging 516 square feet. The apartments feature floor-to-ceiling windows, vinyl plank flooring, in-unit washers and dryers and quartz countertops. The property offers secured parking, a fitness center, 24-hour package lockers and a community lounge area with WiFi and complementary concierge coffee service.



*FortyOne 11 – Renovated Lobby*




*FortyOne 11 – Renovated Fitness Room*

Fund VIII's strategy was to build a diversified portfolio of multifamily properties impacted by the pandemic. Our target properties consisted of those owned by distressed owners – those struggling with lease-up or collections or facing imminent loan maturities.

Upon completion of construction in 2019, FortyOne11 suffered from a slow lease-up and several operational issues resulting from the pandemic. At acquisition, the property was less than 70% leased and collecting only about 75% of monthly rents. Our 24-month business plan included implementing professional property management, improving collections, upgrading the common areas and stabilizing the property.

We have now stabilized occupancy at 95% and reduced delinquency by approximately one-third. We enhanced the landscaping and installed new signage and vinyl plank flooring in the hallways. We improved the lobby with a concierge-style front desk, resident Wi-Fi bar, new flooring, paint, furniture and décor. We also provided residents with branded community bikes and upgraded the fitness room with new a SoulCycle® bike and a boxing and stretching area.

Our aim for FortyOne 11 is to create a comfortable and stylish living environment suitable for Portland's diverse population.

## *Portland, OR: Did you know?*

Downtown Portland is getting the Pacific Northwest's first Ritz-Carlton Hotel. The five-star hotel will occupy a 35-floor tower with 251 rooms, a pool and an indoor/outdoor restaurant with panoramic views of Portland and the Cascade Mountain range. The building will also house condos, office space and a food hall. The $600 million project is replacing the iconic downtown food cart pod. Construction is underway and planned for

# NOTABLES AND QUOTABLES

*Inflation*

*"Lenin was certainly right: there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency."*

- John Maynard Keyes, *British Economist*

*"The more distant your financial target, the longer inflation will gnaw at the purchasing power of your money."*

- Suze Orman, *American Financier*

*"Mere inflation may look like the creation of more demand. But in terms of the actual production and exchange of real things, it is not."*

- Henry Hazlitt, *American Journalist*

*"The inflation that comes inevitably with government pump-priming soon catches up with the laborer and wipes away any real increase in his wages… And so it is that the 'long run' is very soon a-coming."*

- William F. Buckley Jr., *American Author*

*"I was reading in the paper today that Congress wants to replace the dollar bill with a coin. They've already done it. It's called a nickel."*

- Jay Leno, *American Comedian*

*"Inflation is taxation without legislation."*

-Milton Friedman, *American Economist*

*"The millions one always wanted are suddenly there in one's hand, but they are not millions in fact, but only in name."*

- Elias Canetti, *German Author*

*"Inflation consists of subsidizing expenditures that give no returns with money that does not exist."*

- Jacques Rueff, *French Economist*

*"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."*

- Sam Ewing, *American Baseball Player*

*"It is a way to take people's wealth from them without having to openly raise taxes. Inflation is the most universal tax of all."*

- Thomas Sowell, *American Economist*

*"Inflation is the parent of unemployment and the unseen robber of those who have saved."*

- Margaret Thatcher, *British Politician*

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