

SPECIALTY ASSET MANAGEMENT OVERVIEW





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Investing in securities involves risks, and there is always the potential of losing money when you invest in securities.

Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management - aka Unique and Hard-to-Value Assets."



Fiduciary
World... about
here.

Real
World...
about
here.

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FIRMA
34th Annual Risk Management Training Conference
May 11-13, 2021



Always been



***It's a Rough World Out There, Balancing Risk/Reward in
Specialty Asset Management - aka "Unique and Hard-to-Value Assets (HTV)."***

Oldies but
Goodies

Syndicated
Limited
Partnerships

Blockbuster

Radio
Shack

Barnett
Shale/
Fracking

Farm
Subsidies/
Ethanol

New
Realities

TEFRA
Other Tax
Reform

CERCLA

Uniform
Trust Code

OCC
2008-10

OCC
Handbook
"Unique HTV"

Current
Events

Opportunity
Zones

Amazon
warehouse

CBD/MRB



It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **but our core duties have remained consistent!**



A simple yes or no question, no waffles please.
Is this a good property?

Property

- 250,000 SqFt Office
- Bethesda, MD
- Build 15 yrs ago.
- Fully leased to GSA for SSA
- 5 yrs left current term
- 4 five year lease options
- >of 10% or CPI escalations
- Fully triple net
- MV - \$8MM
- NOI - \$600K
- Taxable Income - \$360K
- Appreciation - Flat



It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **but our core duties have remained consistent!**

A simple yes or no question, no waffles please.
Is this a good asset?

Property

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4 five year lease options
>of 10% or CPI escalations
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Trust

For surviving spouse
73 yo Spouse is income bene
3 kids are remaindermen
Trust balance \$32MM
Asset Concentration – 25%
Income Concentration – 68%



It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **but our core duties have remained consistent!**

A simple yes or no question, no waffles please.
Is this asset still appropriate for the account?

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Yesterday's News

- Income beneficiary dies
- Remainder Benes
 - PrivEquity Magnate
 - Doctor
 - Starving Artist
- Investment objective moves from Income to Balanced toward Growth.

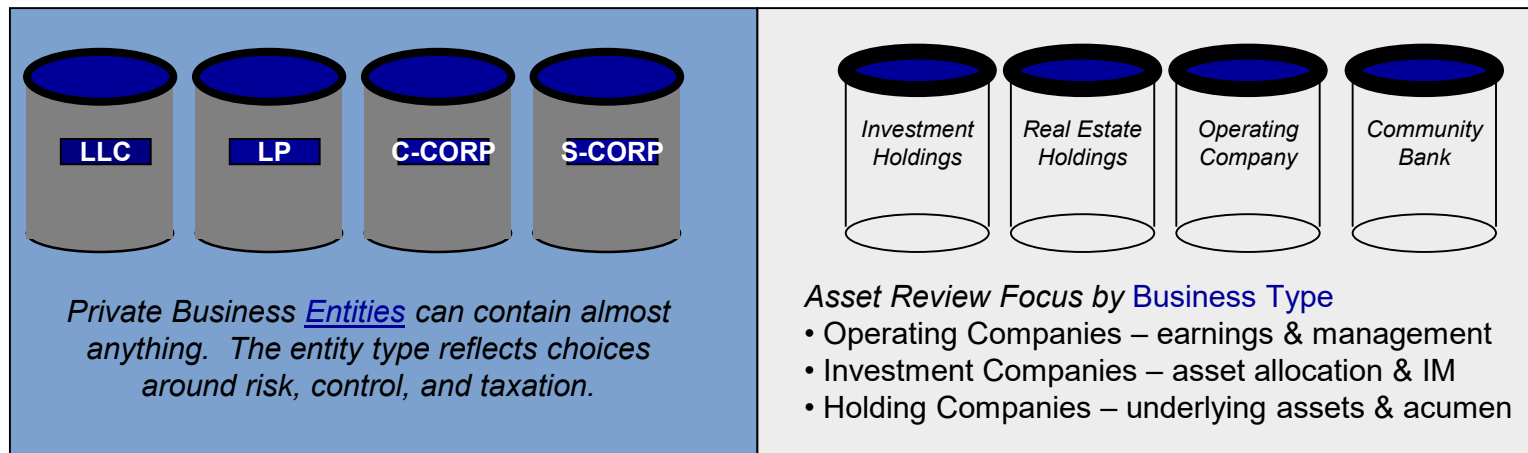
Central Truth: A great property isn't necessarily a great asset.



It's a Rough World Out There, Balancing Risk/Reward - in Specialty Asset Management – but 2020? That's one for the record books!



Closely Held Businesses



Assess at the Entity Level

- Actively inquire and turn the opaque into something transparent.
- Qualification for & pursuit of relief programs (typically restricted to employers).
- Are pandemic effects positive, neutral or negative on the business?
- Does tightening credit climate affect the subject company?
- Did governmental agencies constrain operations?

General Impacts

- All business are affected
- Operations or Holdings?
- Cash flows/distributions
- MV change – focus on Marketability Discount
- Do financial reflect the anticipated fundamentals?

Relief Programs (e.g. PPP)

- Focused on employers (OpCo)
- Getting in hard, out harder – monitor forgiveness carefully
- Oversee controlling interests with great care



*It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **but 2020? That's one for the record books!***



Commercial Real Estate – Just one case...of many.

Note 1 – Form letter from major retailer

Dear Landlord:

It's terribly difficult out there for retailers. No one knows what is going to happen. Due to these unforeseen circumstances, **our company will cease paying rent immediately.**

Thank you for your continuing commitment to our company.

Yours truly,

President

Excerpt from same retailer's website

Crawler at bottom of website page:

Due to extremely high demand, some products may not be available or only available in limited quantities.

Reply from manager of trust-owned store

To: Property Manager

From: Store Manager

Subject: President's Form Letter

Wow, I haven't heard anything about this. We're crazy busy; we've never had sales like this before. That said, **corporate pays the rent, so you'll have to talk with them.**



It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – Contain the Contagion!



Develop a consistent CLIENT FOCUSED process for vetting relief requests*

Property Level Considerations

1. Acknowledge request
2. Request information
 - Financial Info
 - Liquidity
 - Other Obligations
3. Direct the request
4. Defer/Alter/Abate
5. Document modifications

Account Level Considerations

- Review account needs
- Avoid negative cash flow
- Focus on LT value when resources permit

Sectors Most Likely to Request Relief

Hospitality & Entertainment
Restaurants (higher end)
Vulnerable Retail
Multifamily
Office
Restaurant (QSR/takeout)
Essential Retail
Logistics
Gas & Auto
Grocery

Other Predictive Factors

- Inconsistent/ Vacillating Public Policy
 - ✓ Eviction Moratoria
 - ✓ Scant owner relief
- Degree of leverage at property or tenant level
- Susceptibility to e-commerce
- Years in operation
- Wax/Wane in infection rates

*** Forget not who you work for!**



It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **current set of issues...**



General Real Estate

- Health issues around listings and house showings
- Master Insurance Policies – more pros than cons
- Global Insurance Markets
 - ✓ Capacity is shrinking
 - ✓ Capital seeking profit
 - ✓ Few options & rising cost
 - ✓ Big CATs – 2020 hurricanes
- Housing bubble on horizon?
- Remote Work – Seismic shift
 - ✓ Urban, Suburban, Ex-urban
 - ✓ Future office sector – whoa!
 - ✓ Densification is over...for now
 - ✓ Ripple effect on retail/housing

Oil & Gas Assets

- Mixed impact on supply/demand from pandemic
- Entire sector is now a federal target
- Environmental policy
- Climate impact
- Industry Consolidation – Lower demand for land/leasing
- Could predict supply shocks & softer supply long-term

Farm/Ranch/Timber

- Short-term bifurcation of timber vs lumber prices
- Apparent imbalances of timber products in light a surge in home starts
- Potential change in transfer and gain taxation
- Farm & timber have tailwinds on overall climate issues where ranching faces headwinds
- Prices for these properties are in a generally rising environment
- International trade climate on commodities

Always remember

- Conflicts of Interest
- Use outside counsel
 - ✓ Local rules/regs
 - ✓ Recent legislation
 - ✓ Recent precedents

It's a Rough World Out There, Balancing Risk/Reward in Specialty Asset Management – **fresh look at an old issue!**



Smith Revocable Trust

\$0.5MM Cash
\$2.0MM Fixed Income
\$7.0MM Equities
\$1.0MM Alternatives
\$3.5MM IBM (25% Conc)
\$14 MM – Portfolio Value



Get a Letter of
Direction (aka Directed
Hold Letter) from
Grantor to cover IBM
(her former employer)
PM just knows...IBM is

- Large Cap
- Growth
- Technology

...and invests the balance
in light of this

Jones Revocable Trust

\$0.5MM Cash
\$2.0MM Fixed Income
\$7.0MM Equities
\$1.0MM Alternatives
\$3.5MM JonesCo(25% Conc)
\$14 MM – Portfolio Value



Get a Letter of
Direction (aka Directed
Hold Letter) from client
to cover JonesCo
(family business)

PM knows...little about
JonesCo!

...and may invest the
balance with no
sensitivity to
JonesCo attributes.

Implications

- JonesCo could be any specialty asset
- The LOD probably protects the bank for risks on IBM or JonesCo themselves
- **But what getting asset allocation right based on attributes of directed assets?**
- **Should Grantor provide updates the on nature and performance of directed assets?**
- **Should Grantor provide updated MV on directed assets? Need substantiation?**



ASSET CLASS RISK DISCLOSURES

All sector recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all recommendations will be in the best interest of all investors.

Diversification does not ensure a profit or protect against loss in declining markets.

Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Real estate: Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults.