Catalyst Cap Intro: RE Fund Investing

Valyrian Capital

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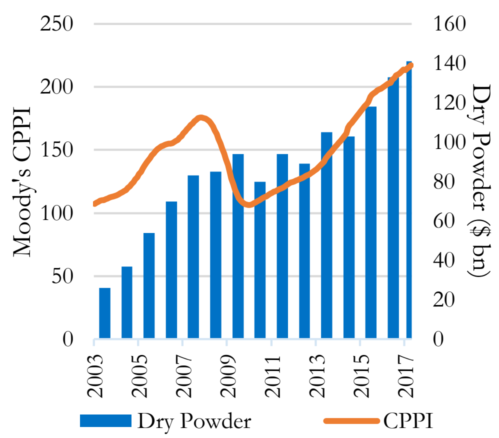
Summary Themes – 'The End of the Levered Beta Trade'

- Commercial real estate levered beta trade is in its later innings and investors can no longer rely on broad based property appreciation to drive investment returns
- Going forward, investors will need to take a more strategic, opportunistic approach
- Transparency is also critical. Fund managers with broad, flexible mandates will need to ensure a high level of transparency to build and protect investor trust
- Traditional fund structures are ill-equipped for the current environment due to structural limitations, misaligned incentives and limited transparency
- Low yield environment and record amounts of dry powder allocated to real estate that is available to be put to work through co-investment opportunities

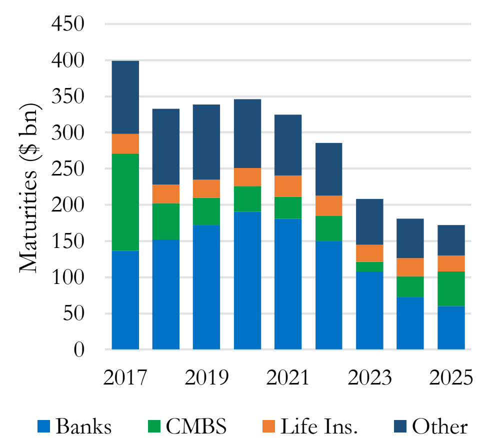
How We Got Here

- Commercial real estate has appreciated substantially following financial crisis lows, with national aggregate property values 23.3% above their pre-crisis highs
- Traditional real estate private equity firms (RE PE) have benefited from buying and holding real estate given low cost financing and strong property price appreciation ("levered beta trade"). Broad property appreciation, rather than operational improvements or opportunistic positioning, has driven returns
- The hunt for yield in the post QE environment & heavy inflows from foreign investors, who view US CRE as a safe haven, have extended the CRE cycle
- Levered beta returns and industry consolidation have insulated traditional RE PE firms from fee pressures, despite incentives that are misaligned with investors
  - **5 firms accounted for over 40%** of real estate fund raising in the previous year
  - Equity markets assign a **12-16x** multiple on management fees versus a **4-6x** multiple on performance fees, creating an incentive to accumulate assets
- However, the cycle is entering the later innings given property valuations, reduced credit availability and capital controls limiting foreign investors
  - Dodd-Frank risk retention rules have limited CMBS credit availability
  - High Volatility Commercial Real Estate (**HVCRE**) **BASEL III** capital requirements and regulatory scrutiny are limiting credit availability from banks
- Increased adoption of **demographic driven** strategies & **emerging institutional asset classes** (industrials, self-storage, student housing, senior housing), as investors look to get ahead of expected influx of institutional capital flows
- However, record amounts of dry powder remain to be deployed in an increasingly challenging environment for traditional real estate allocators and real estate investors constrained by traditional mandates in a historically unique investing environment

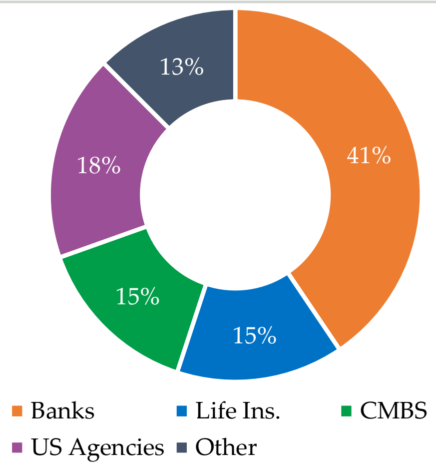
CRE Prices & Dry Powder at Highs



CRE Maturity Headwinds Remain



Banks Dominate CRE Lending



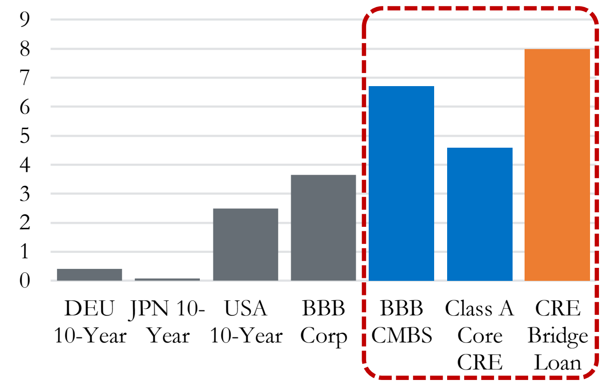
Sources: Moody's, Preqin, MBA, Valyrian

Valyrian's Disruptive Strategies

CRE as an Alternative to Traditional Bonds & Equity

Excess Returns	▪ CRE debt and equity has tended to offer compelling returns vs. traditional bonds & equities
Diversifying	▪ Private CRE investments provide a source of diversification and have exhibited lower volatility
Current Income	▪ CRE investments can offer attractive income, driven by relatively high coupons or rental income
Hard Assets	▪ Backed by tangible real assets
Flexibility	▪ Ability to tailor exposure to investor preferences around fixed/floating, term, volatility, leverage, etc.

Yields and Cap Rates (%)



Valyrian's Commercial Real Estate Debt Strategies

- Real estate debt has become increasingly attractive vs. equity given current state of the real estate cycle. Valyrian's debt strategies are not reliant on future price appreciation & are positioned to benefit from loan-to-own optionality at an attractive basis

Acquisition & Development Bridge Loans

- Banks pulling back amid BASEL III's HVCRE regulations
- Valyrian originates senior whole loan acquisition & development loans
- Loan is split into a lower risk A-Note and higher returning B-Note to match investor preferences
- A-Note can be syndicated to banks or co-investors seeking safer assets
- B-Note can placed with HNWI LPs or institutional co-investors
- Valyrian retains portion as GP, **effectively creating equity returns on senior debt** and helping align interests

Historically Overlooked Middle Market

- Traditional RE PE investors have significant capital to deploy
- These firms often have minimum deal sizes, restrictive targets and can't (or won't) underwrite smaller deals
- Valyrian can earn attractive risk-adjusted returns providing capital to middle market borrowers who often have significant skin in the game
- Valyrian has partnered with Propellr, a real estate-focused technology-enabled merchant banking platform to more efficiently underwrite and syndicate middle market loans

Regulatory Capital Relief Participation Interests

- Banks have significant commercial real estate debt exposure on their books and are facing regulatory pressure to reduce risk
- Valyrian would purchase a 49% pro rata pass-through participation, allowing the banks to de-risk, while providing Valyrian with active returns
- Participation in seasoned senior debt that could be further enhanced with leverage or syndication to institutional co-investors

Co-Investment Syndication Strategy

Strategy

- Significant co-investment capital needs to be deployed and investors are in need of new ideas that offer attractive yields
- Valyrian has partnered with Propellr, creating a unique syndication strategy harnessing co-investment capital
- Co-investor capital provides term financing for a small, opportunistic pool of GP capital

Valyrian Benefits

- Valyrian can manufacture structural alpha by syndicating investments via Propellr at a predetermined rate
- Greater flexibility and ability to efficiently raise capital as opportunities arise without fund structure limitations
- Access to a broader pool of co-investors vs. traditional funds where co-investors are drawn from existing fund LPs

Co-Investor Benefits

- Co-investors benefit from radical transparency and consistent, detailed underwriting information
- Economics are simplified, transparent and known upfront vs. traditional fund structures with complex fee waterfalls
- Enables investors to create bespoke, discretionary portfolios from curated opportunities across the risk spectrum

Sources: CBRE, OECD, Preqin, Valyrian