Investment Training Module
Topic: Liquidity vs Safety Tradeoffs

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Liquidity as a Tradeoff

- For the potential of higher return, something must be sacrificed
  – Safety (the most common tradeoff by far)
  – Return potential
  – Liquidity

- Example of liquidity tradeoff: paying down a mortgage
  – "Investment return" of additional principal payment is the tax-adjusted interest rate savings (maybe ~3.5% at today's rates)
  – Return is higher than ~2.5% for a 10-year Treasury, and yet completely safe

What is sacrificed when paying down a mortgage?
It's not safety. It's liquidity.

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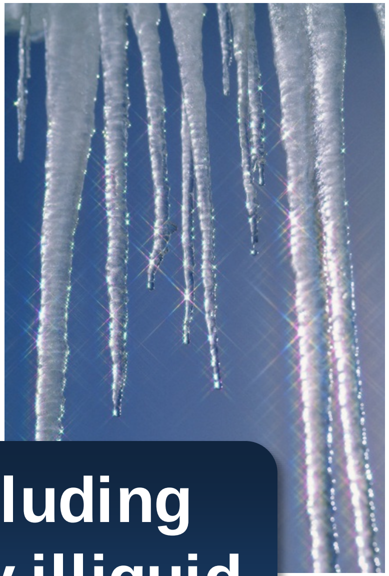
Liquidity Tradeoff For Real Investments

- Sacrificing liquidity enables investing in longer-term, stable investments
  - Stocks are completely liquid, which has a function in most portfolios
  - Leasing a rail car to Union Pacific or an MRI machine to a hospital is not liquid, but significantly more reliable (and boring) than a stock
- Common low-liquidity investments
  - Equipment leasing
  - Short-term financing
  - High-quality mortgage notes
  - Real estate



There are different degrees of liquidity, including daily, monthly, “best effort”, and completely illiquid

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Equipment Leasing

Strategy: Buy business-critical equipment and lease it to high credit-worthy companies

Capital Structure

Capital Structure	Claim
Secured Debt	First claim on assets and cash flows
Unsecured Debt	Secondary claim on cash flows (bonds)
Equity	Includes preferred and common stock

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Equipment Leasing Fund Life Cycle

- Several different structures built around a similar life cycle
- Typically best-effort liquidity during Operating Period

Offering Period (2 years)

Operating Period (3 – 6 years)

Liquidation Period (2+ years)

Common payout options:

- 7% annual yield paid quarterly; 8.6% preferred return
- 8% annual yield paid quarterly; 8% preferred return
- 9% annual payout (5%-6% yield + return of principal)

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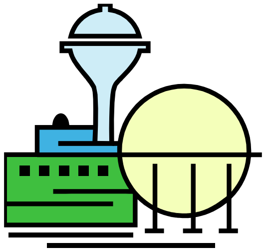
Short-term Financing Fund

Strategy: Make short-term, high-interest loans to finance working capital or avoid capital purchases

- Similar to Equipment Leasing fund structure, and often a component of Equipment Leasing funds
- Company assets used as collateral, but company owns the equipment
- High risk companies must have “deep pocket” backing from Venture Capitalists

Example (ATEL Growth Capital Fund 8):



Start-up Companies backed by at least 2 major VCs

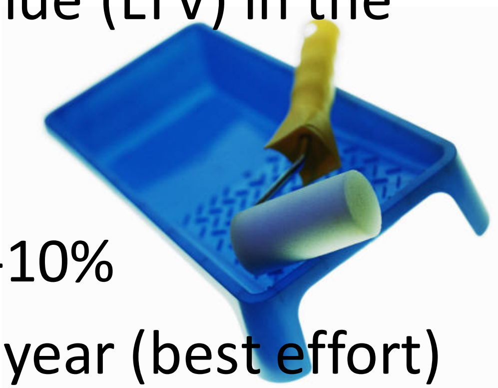
Lend money for working capital; 3-year high-interest loans typical

Receive P&I each month; Deals include warrants

High Quality Mortgage Note Fund

Strategy: Purchase privately-held, 1st Trust Deed loans with low Loan-To-Value ratios at a discount

- Not a real estate investment; it's a mortgage note investment
- Notes are typically purchased with Loan-To-Value (LTV) in the 30%-70% range
- Notes are purchased at a 5%-15% discount
- Interest rate + discount brings the yield to 6%-10%
- Perpetual fund (no end date); liquidity after 1 year (best effort)



Property Type:	Single Family
Property Value:	$84,900
Note Balance:	$46,451
Interest Rate:	5.0%
LTV:	54.7%
Pay Price:	88.5%
Yield to Fund:	16.9% (early payoff)

Property Type:	Commercial
Property Value:	$651,400
Note Balance:	$252,227
Interest Rate:	6.0%
LTV:	38.7%
Pay Price:	86.5%
Yield to Fund:	8.7%

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Non-traded Offerings Used By VFM

EQUIPMENT LEASING		
SQN Fund IV	6-8 years	7% yield; 8.6% preferred return
ATEL Fund 16	8-10 years	5%-6% yield; 9% self-liquidating distribution
ICON Fund 16	6-8 years	8% yield; 8% preferred return
CREDIT FUNDS		
ATEL Capital Growth Fund 8	8-10 years	6%-8% yield; 11% self-liquidating distribution+
CION Fund	3-??? years	7.2% yield (variable)
MORTGAGE NOTE		
Amerifunds Secured Income	Perpetual fund	6%-8% yield (variable)
Woodbridge Mortgage Inv	5 years	10% yield + 2% accrued preferred return
REAL ESTATE		
2GR Equity (Texas)	3-5 years	10% preferred return + profit sharing
Cadence Retail Income Fund	7 years	5% dividend; 7% preferred return; 15% target

Secured Income in a Portfolio

- Equipment leasing, short-term financing, and mortgage note funds make up the Secured Income asset class
  - Steady income is "secured" with tangible assets which produce the income
  - Contrast this with a bond, which is an unsecured promise
  - Excellent for steady, reliable income
- Not everyone can invest in Secured Income
  - General public cannot directly invest in Secured Income
  - Non-liquid funds must be deemed "appropriate" for each investor
  - A qualified advisor must sign off and assume liability*
  - Some funds require investor to be "accredited"

Secured Income funds require significant research to determine quality, reputation, and investor-orientation

* Advisor liability is for appropriateness of investment; not the performance of the investment

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The Good Guys (based on VFM's research)

- SQN Capital Partners
  - SQN Alternative Investment Fund IV
- ICON/CION Investments
  - ICON Equipment & Infrastructure Fund 15
  - CION Investment Corp
- ATEL Capital Group
  - ATEL Fund 15
  - ATEL Growth Capital Fund 8
- Amerifunds Diversified Funding
  - Amerifunds Secured Income Fund I (closed)
  - Amerifunds Secured Income Fund II

Note: Woodbridge and Cadence undergoing due diligence

"Good Guy" Qualities: Investor-focused, track record, transparency, unique expertise or relationships, uncompromising ethics

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