

## 2CHYP Analytics 1Q18 Update

Investing in REITs provides a higher dividend yield compared to the broader market and with the recent underperformance, REITs also provide a better value. Buying the REIT index, however, would involve buying the bad REITs along with the good ones. Instead, I prefer to amplify and maximize the benefits of REIT investing through a hand selected, diversified portfolio of REITs that are individually and collectively positioned to outperform. We call this portfolio 2CHYP.

Although 2CHYP consists entirely of REITs, the differences between 2CHYP and the REIT index are massive.

- A 9.22% dividend yield more than doubles the index
- 2CHYP's 7.9X 2018 estimated P/FFO is less than half that of the index
- A 72.9% payout ratio is lower than that of the index at 80.7%

In brief, this collection of stocks provides a much bigger dividend yield fully covered by the oversized cashflows that come from buying stocks at deep values. Since its inception on 7/1/16, 2CHYP has been a high yield portfolio, but today that term applies more than ever before as the carrying yield has risen to 9.22% as of 3/31/18. It has always been a value portfolio and that also applies to a greater extent today with a P/FFO of 7.9X.

These analytics will detail the entirety of 2CHYP's holdings, why we own each name and how they fit together into a diversified portfolio.

### **Volatility begets fecundity**

The market price disturbances that have rattled the REIT universe have ushered in a golden age of mispricing. We can usually scrounge around to find opportunities, but right now they are abnormally plentiful. The portfolio below is color coded with green indicating those which have healthy long term growth prospects and yellow indicating those with flatter FFO/share but extreme value.



2CHYP Portfolio 3/31/18								
Stock	Weight	Shares	Price	Market Value	FFO/share*	P/FFO	Indicated Dividend \$	Yield %
CXW	4.08%	223	\$ 19.54	\$ 4,357.42	\$ 2.24	8.72	\$ 374.64	8.60%
GNL	7.03%	446	\$ 16.84	\$ 7,510.64	\$ 2.14	7.87	\$ 949.98	12.65%
GOV	5.70%	445	\$ 13.68	\$ 6,087.60	\$ 2.02	6.77	\$ 765.40	12.57%
GPT	4.44%	218	\$ 21.76	\$ 4,743.68	\$ 2.04	10.67	\$ 327.00	6.89%
HT	4.36%	260	\$ 17.92	\$ 4,659.20	\$ 2.05	8.74	\$ 291.20	6.25%
IRM***	5.38%	175	\$ 32.83	\$ 5,745.25	\$ 2.89	11.36	\$ 411.25	7.16%
JCAP****	6.60%	390	\$ 18.08	\$ 7,051.20	\$ 3.05	5.93	\$ 546.00	7.74%
KRG	1.42%	100	\$ 15.21	\$ 1,521.00	\$ 2.00	7.61	\$ 127.00	8.35%
MPW	9.74%	800	\$ 13.01	\$ 10,408.00	\$ 1.43	9.10	\$ 800.00	7.69%
PLYM	4.70%	300	\$ 16.75	\$ 5,025.00	\$ 1.33	12.59	\$ 450.00	8.96%
SOHO	11.01%	1700	\$ 6.92	\$ 11,764.00	\$ 1.05	6.59	\$ 782.00	6.65%
STAG	4.74%	212	\$ 23.91	\$ 5,068.92	\$ 1.81	13.21	\$ 300.96	5.94%
UMH	10.68%	850	\$ 13.43	\$ 11,415.50	\$ 0.79	17.00	\$ 612.00	5.36%
UNIT***	10.97%	723	\$ 16.21	\$ 11,719.83	\$ 2.54	6.38	\$ 1,735.20	14.81%
WPG	7.79%	1250	\$ 6.66	\$ 8,325.00	\$ 1.52	4.38	\$ 1,250.00	15.02%
CASH	0.02%			\$ 25.00	\$ -		\$ -	
Dividends receivable	1.36%			\$ 1,456.64				
Portfolio Total**	100.00%	n/a	n/a	\$ 106,883.88	\$ 13,345.47	7.90	\$ 9,722.63	9.22%
*FFO/share is the 2018 consensus estimate provided by SNL Financial.								
**Totals are for the entire 2CHYP portfolio including cash and dividends receivable. P/FFO is portfolio stock value over portfolio FFO.								
*** IRM and UNIT earnings figures are consensus 2018 AFFO								
****JCAP earnings figure is midpoint of 2018 guidance								
Deep Value								
Quality Value								

As teased in the introduction, 2CHYP's portfolio level statistics significantly beat the index in yield, value and dividend coverage.

	2CHYP	SNL US REIT index
P/FFO*	7.90	19.07
Dividend yield	9.22%	4.23%
Payout ratio**	72.9%	80.7%
*2CHYP P/FFO is portfolio's value over aggregate FFO of holdings		
the SNL REIT index P/FFO is the forward estimate provided by SNL Financial		
**Payout ratio calculated as indicated portfolio dividends		
over indicated FFO of aggregated holdings in the portfolio		
Data as of 3/31/18 for 2CHYP and SNL index		

These metrics look great in isolation, but it is easy to achieve such numbers through loading up on junky stocks that pay high yields. For example, one could just buy up all the troubled mall REITs and have a portfolio that looked great on dividend yield and P/FFO. The value of a hand selected portfolio is that it can get these numbers without sacrificing quality. In fact, we are significantly underweight retail and overweight growthier REIT sectors.

The Vanguard Real Estate ETF (VNQ) has 18.7% of its holdings in retail whereas we only have 9.21%.

Fundamental exposure	Positions	Portfolio weight	VNQ Index weight
Corrections	CXW	4.08%	<1%
Manufactured housing	UMH	10.68%	<3%
Retail	WPG, KRG	9.21%	18.70%
Office	GNL, GOV	12.72%	13%
Telecom	UNIT	10.97%	~2.4%*
Industrial	STAG, GPT, PLYM	13.88%	7.60%
Self Storage	JCAP	6.60%	~5.5%*
Healthcare	MPW	9.74%	10.40%
Hotel	SOHO, HT	15.37%	6.60%
Data security/ Data Center	IRM	5.38%	~7.6%*
Cash		0.02%	
Dividends receivable		1.36%	
Total		100.00%	
Yellow indicates overweight relative to index			
*VNQ lumps these weights into broader buckets called specialty or diversified.			

Note

that VNQ holdings are subject to change as it is presently transitioning to a slightly different index.

We are overweight the growthiest areas of REITs with a sizable overweight in manufactured housing which is the highest same store NOI growth sector within REITs. Industrials are also putting up strong numbers with Prologis' latest commentary indicating continued rapid growth, particularly in the USA. With a 13.88% weight, we are substantially overweight relative to the VNQ.

The other sizable weighting difference between 2CHYP and the VNQ is in hotels with our weight of 15.37% dwarfing the 6.6% of the index. Hotels are among the more economically cyclical REIT sectors and given the strong economy I think they can outperform over the next couple years. Further, hotels can adjust prices overnight making them among the most resilient in a rising interest rate environment.

From a top down perspective, we have positioned 2CHYP to be fundamentally diversified with a wide mix of drivers. Unlike the VNQ and other indices, we are agnostic to size. We will buy large cap if and only if it is undervalued and we will buy small cap if and only if it is undervalued. We have not sacrificed exposure to growth and safety for value, instead opting to obtain the value through bottom up analysis of the stocks that have fallen through the cracks. With this in mind, let us get to why each of these stocks has been selected for 2CHYP. In order to not make this a monotonous list of 15 elevator pitches we have organized the picks into themes.

### The discomfort alpha

Economics 101 states that wages for jobs are based on supply and demand so jobs that require more education or training will have significantly higher pay. This is obvious, but it becomes interesting when anomalies are observed.

The median hourly wage for refuse collectors is \$14.30 ([source](#)). This is remarkably high for a job which requires just a high school education and minimal training. Why? Quite frankly, it is an unpleasant job so premium pay is needed to incent people to take this job over other jobs of the same education/training level. In other words, the refuse worker is getting extra pay for doing the job nobody wants to do.

In 2CHYP, we get extra dividends for owning the stocks that nobody wants to own. I call this the discomfort alpha. Stocks that are unpleasant to own will trade at a higher risk adjusted expected return. Generally, the factors which make a stock unpleasant detract from the fundamental value and proper pricing would reduce the market price by a commensurate amount. However, much like the refuse workers, the market price reduction goes beyond the reduction in fundamental value. Analysts will figure out that the stock should trade ~\$2.00 a share lower for some miscellaneous problem such as bad management or secular decline, but if the stock is only \$2.00 lower than it would otherwise be, nobody wants to own it. Thus, the stock falls the \$2.00 plus an additional amount that provides enough incentive for market participants to be willing to hold their nose and buy some shares.

The extra drop, beyond what is fundamentally warranted, creates extra risk adjusted return, beyond what the average investment in the stock market will produce. It creates alpha. The following are stocks in 2CHYP that have baked in extra return of this nature.

Government Properties Trust (GOV) is plagued with RMR as its entrenched management. The notorious management team has a long history of misalignment and many REIT investors avoid their companies at all costs. All of the RMR run REITs trade at a discount to peers, but at the moment we find GOV to be the most opportunistic of the group.

Uniti Group (UNIT) is suffering from guilt by association as the market thinks it is tied at the hip to Windstream. While it is true that more than half of its EBITDA comes from WIN, there are legal factors and quality of property factors that could allow UNIT to thrive even if WIN fails. I find WIN's fate to be quite uncertain at the moment, but UNIT is far more independent than the market thinks.

Global Net Lease (GNL) is stigmatized by its family tree as an offshoot from American Realty Capital which also founded VEREIT (VER). Prior to the accounting scandal in which FFO and other metrics were intentionally inflated, VEREIT was known as ARCP. Since the scandal, anything related to American Realty Capital has traded at deep discounts. While we do not feel particularly comfortable with GNL's management, the property portfolio has tremendous value which is not reflected in the market price.

### **The glamour premium**

In a similar fashion to how people prefer to own pleasant stocks, they also prefer to own glamorous stocks. This means that A properties in tier 1 locations will generally trade at a premium to B properties or secondary locations and this premium goes beyond what is economically rational.

People like to tell their friends they own shares in a trophy asset. It is much less exciting to tell people you own shares of a B mall with a high vacancy rate. This pride translates to professional asset

managers perhaps to an even greater extent than it does to retail investors. It is much easier to sell a fund if you can tell prospective clients you invest in the finest real estate of New York and there are greater barriers to finding clients when you invest in assets perceived to be troubled. Thus, nearly all investors will have a tendency to buy REITs with more glamorous assets and this pushes the prices of these REITs above where they should trade from a risk adjusted return standpoint. Similarly, it tends to push less glamorous REITs below where they should trade from a risk adjusted return standpoint.

One could argue that some cap rate difference is warranted as the A properties and tier 1 locations can have different growth dynamics. The magnitude of warranted difference depends on the property type. Below is my opinion on what the cap rate spread should be in various REIT sectors. In other words, these are the spreads that I think are economically rational and we will cover each in more detail below:

- Retail: 300 basis points (very situational)
- Office: 100 to 200 basis points
- Hotels: 100 to 200 basis points
- Industrial: 50 to 100 basis points
- Manufactured housing: 0 basis points

Retail properties warrant the greatest Class A premium because the headwinds fundamentally seem to be affecting B and C properties to a far greater extent. Therefore, the A properties have better growth prospects or to bears they have less negative growth prospects. I describe the 300 basis point spread as very situational because it depends on whether the assets are surviving. For those assets which are going under, a 300 basis point higher cap rate is not appropriate as a metric to use as it would be more about recovery value. Thus, the 300 basis point figure applies to B class properties that are likely to survive but will require significant investment.

Based on the GGP buyout offer from Brookfield, trophy quality retail assets are going for around 5%-5.5% cap rates. Trophy retail assets are growing NOI slightly while B class retail properties have been flat to slightly down in NOI. I think a 300 basis point spread appropriately prices in this growth difference as well as the higher capex required by the B asset. This would imply that surviving B retail assets should trade for cap rates around 8%-8.5%. Due to the market's preference for glamour, however, many well managed retail REITs are trading at substantially higher cap rates.

At around \$6.60, WPG is trading at a roughly 11% implied cap rate, a 550 to 600 basis point spread to GGP.

Clearly GGP has better assets than WPG. We are not blind to the difference. It just seems as though the pricing rift is a bit extreme and I think it is likely that when the dust settles and the retail macro environment stabilizes one will have been better off investing in the 11% implied cap rate of WPG. It is uncomfortable, but the cashflows are enormous and will eventually pay off once the renovation capex subsides.

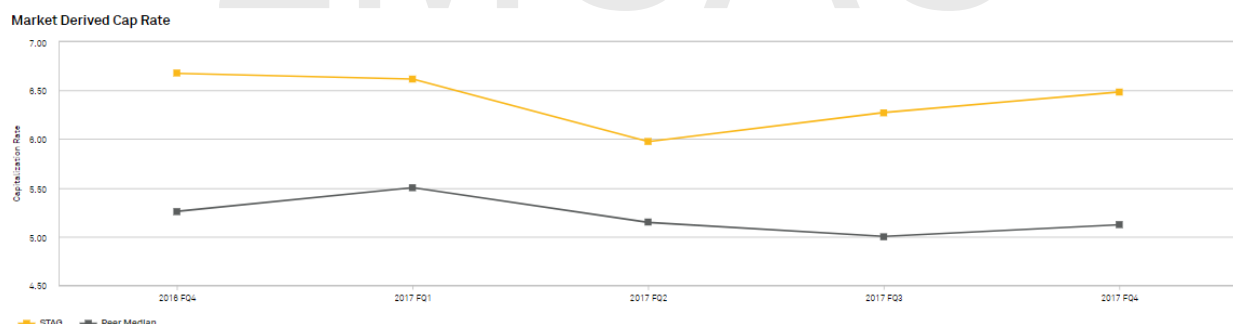
In office, we see significantly less mispricing. The trophy office assets are trading at a premium (lower cap rate) to B assets, but the spread is reasonable. There are individual office REITs (such as GOV) that are mispriced, but the reasoning seems to be more special situation rather than sector level mispricing.

Among hotels, we think a 100 to 200 basis point spread is warranted because the higher end properties tend to be more stable through recessions. This reduced risk suggests a lower cashflow return is appropriate to balance the risk adjusted returns of the properties.

Pebblebrook's (PEB) offer to buy LaSalle (LHO) at \$30 a share implies a cap rate just over 7%. LaSalle's properties are not quite trophy level, but close so I think this is a good representation of cap rates for high end hotels. Sotherly Hotels (SOHO) has slightly lower end assets as measured by RevPAR and it trades at about a 10% implied cap rate. Given that SOHO has been beating LHO in same store RevPAR growth, this 300 basis point spread seems overblown. I would consider 8.5% to be a more reasonable cap rate for SOHO and this implies a market price in the range of \$12 to \$14 based on forward estimated NOI. This is why SOHO has been a long-held hotel position in 2CHYP.

Industrial REIT market pricing is perhaps the most imbalanced as the Class A properties in tier 1 cities are going for absurdly low cap rates like 4% while Class B properties in secondary markets are available at 8%-9%. Based on prior recessions, the Class B properties are actually better than Class A in terms of maintaining cashflow. From a reasoning viewpoint, I think this is a result of the price point. When times are hard, it is much easier to pay \$4 per square foot than \$8. The upside to primary markets is that they can be more supply constrained with less available land and/or zoning. For this reason, we think Class A primary market properties should still trade at a premium, but I would suggest a spread of 50 to 100 bps.

A majority of the industrial REITs are going along with the conventional wisdom that A properties are better and they are acquiring at bloated prices. Plymouth Industrial (PLYM) and Stag Industrial (STAG) are operating more intelligently, buying the undervalued B properties. STAG's cap rate spread to peers is nearly 200 basis points as seen below.



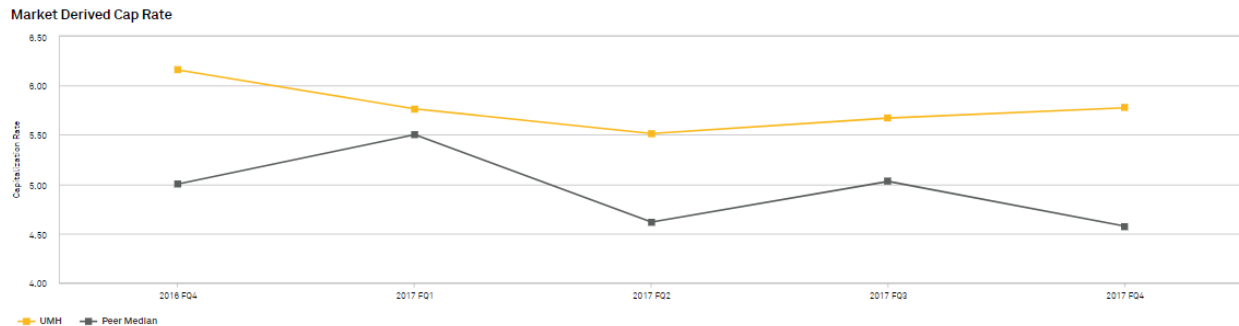
Source: SNL Financial

We think this is far too much given STAG's track record. Plymouth is a bit cheaper than STAG in exchange for its nascence. Both stocks represent a healthy combination of value and growth while the rest of the industrial sector represents growth at an unreasonable price. It seems unlikely to me that 4% cap rate purchases will thrive in a backdrop where the Fed Funds rate is planned to crest 3%. The 8%-9% cap rates of STAG and PLYM provide far more cushion over the risk-free rate.

Gramercy Property Trust (GPT) is the other industrial REIT in 2CHYP and it, unfortunately, does not share the strong acquisition criteria of STAG and PLYM. GPT is buying mostly in the 6%-7% cap rate range and I do not believe their purchases are creating any value. Instead, the thesis for owning is predicated on the sheer magnitude of value. While the company may be buying at low cap rates, investors are getting

a much better deal due to the severe discount at which GPT trades. With a P/FFO under 11X, GPT is by far the deepest value industrial REIT.

Manufactured housing is one of the lowest cap rate sectors, coming in at 4.5%. UMH Properties (UMH) trades more cheaply with about a 125 basis point spread.



Source: SNL Financial

UMH differs materially from peers in that it is focused on affordable workforce housing while peers are more in the retirement and leisure business. Thus, the terms Class A versus Class B would not really apply here as they are separate business models. Instead, the difference is in the curb appeal. Communities for affluent retirees with \$110,000 RVs are far more glamorous than the affordable workforce housing that UMH provides. This seems to be the only reason UMH trades at such a discount as its operations are nothing short of impressive, averaging over 14% NOI growth for the last 3 years (source: SNL Financial).

Personally, I think housing America's workforce is an honorable job and I am happy to accept an above market expected return to invest in it.

So far, the stocks we have covered in 2CHYP are the uncomfortable to own and the un-glamorous. While these are often categories in which we find actionable mispricing, there are also some top-notch companies that just happen to be good values at the moment.

Hersha Hospitality (HT) is one of the more expensive stocks in 2CHYP on a relative basis as it trades fairly close to the median multiple of its sector. Its operations, however, are well above median with Hersha's hotels outperforming their submarkets. Hersha has simultaneously increased its NAV and its RevPAR through a combination of dispositions, share buybacks and luxury hotel acquisitions. If we are truly in a rising rate environment as everyone seems to be fearing, hotels are a great place to be.

In late 2017, Iron Mountain (IRM) was a \$40 stock when it issued equity to finance a synergistic data center acquisition. At that time, it was hard to find a bear, but there just wasn't enough demand to absorb the new shares. IRM dropped sharply on the issuance and fell precipitously in the following months. It was a GARP stock at \$40 with a reasonable valuation. Today, it has the same growth potential, but at a value multiple. IRM's legacy business is still growing and its hybridization of physical and digital data storage and protection is well positioned for a future wrought with hackers. This company has no business trading around 11X forward AFFO and we have every intention to take advantage of the mispricing.

Core Civic (CXW) just keeps getting cheaper despite improving fundamentals. I think the market is looking for the wrong thing in anticipating help from increased spending on prisons in the budget. When the budget was announced without an added prison package CXW and GEO both sold off. What the market is missing here is that private prison operators like CXW are the low cost provider. Per diem costs per detainee are significantly lower for CXW than for public prisons. This means that in the presence of constrained budgets, the government is MORE likely to contract with private prisons. CXW is also making it work at the state level with sizable new contracts. This stock is largely uncorrelated fundamentally with other REITs so it makes a great diversifier while also having potential for an individually strong return.

Jernigan Capital (JCAP) is a strategic play on the self storage space. This sector has had exceptional same store NOI growth for decades, but is now facing supply issues due to the somewhat low barriers to entry. JCAP is one such supplier with its primary business being to provide loans to developers in exchange for both a high priority return and significant equity participation. This strategy relies on the properties being successful upon completion which in turn relies on the self storage space remaining fundamentally strong. It looks as though supply is going to taper off in 2019 with demand growth exceeding supply growth. JCAP's developments thus far have been underwritten with a reasonable amount of conservatism, so there is a good chance the anticipated NAV will be realized.

It is hard to discuss MPW without repeating my former commentary as the company has had the same story for so long. Normalized FFO consistently grows on a per share basis through a combination of acquisitions and escalators on existing rental contracts. The entire healthcare space has had problems cropping up due to cost of labor, regulation and reimbursement. MPW's tenants have had similar issues including one major tenant, Adeptus, who went under. Where MPW differs from the rest of the healthcare space is that it has substantial barriers in place which protect it from these headwinds. The first barrier is an exceedingly high EBITDAR coverage of rent among its tenants. With such strong coverage, when a tenant loses 10% of its profitability due to the aforementioned difficulties, MPW is unaffected. Even when this barrier fails as was the case with Adeptus, the quality and location of properties serves to provide replacement tenants. MPW's margin of safety is not priced in to the stock, affording a favorable reward for the risk.

Kite Realty Group (KRG) continues to put up strong fundamental numbers as its price languishes. Unfortunately, the dividend slashing at Wheeler gave grocery anchored shopping center REITs a bad name and seems to have furthered the selloff. Wheeler's dividend was cut entirely based on the company's poor operations and cost of debt. It had nothing to do with grocery fundamentals. KRG, has a track record of solid operations and a far cheaper cost of debt so there is no reason to think the problems at WHLR are contagious to KRG. These sorts of situations where prices are correlated despite disparate fundamentals are often the source of mispricing. We will watch KRG's same store NOI growth, but so far it seems like smooth sailing.

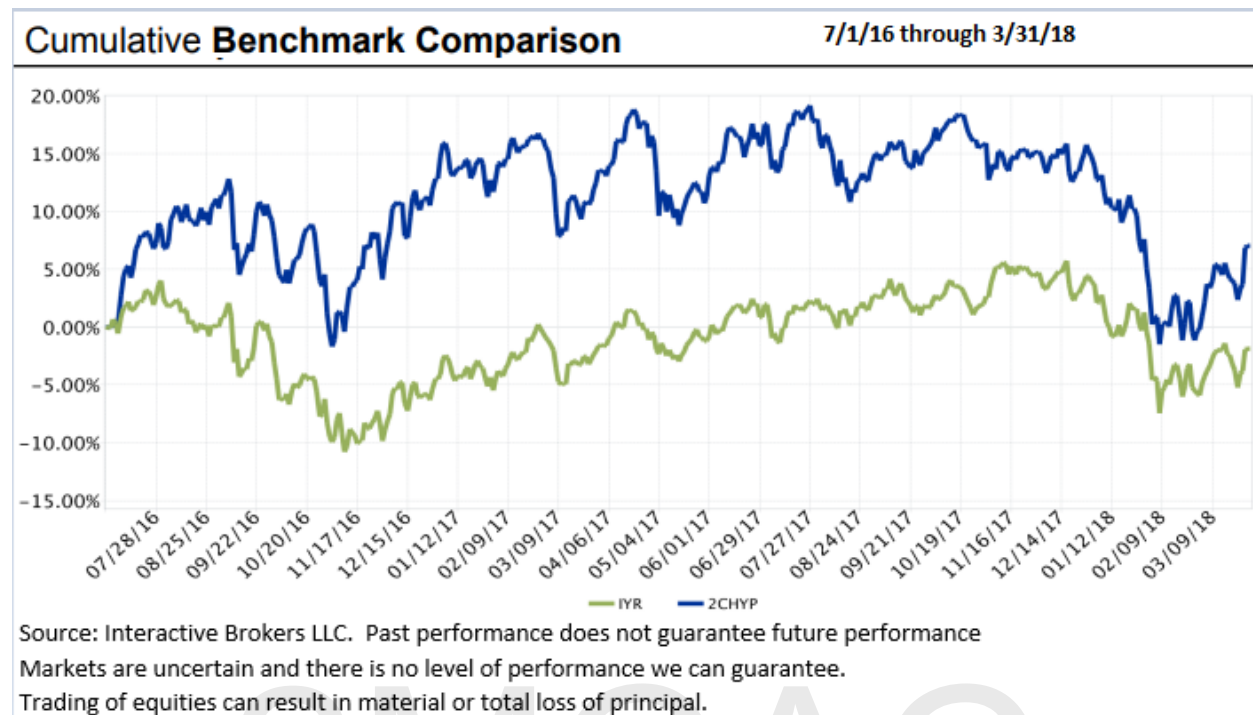
Well, that is the last of the holdings. How is it performing so far?

## **Performance**

On 7/1/16 we seeded 2CHYP with \$100,000 which is the only capital that has come in or out. Our intent was to demonstrate that an actively managed REIT portfolio can beat the index. We are annoyed by the



media's continuous insinuation that passive investing is better and have put our necks on the line to prove otherwise. Thus, we set out to beat our benchmark, the iShares US Real Estate ETF (IYR).



Since 2CHYP's inception on 7/1/16, the IYR has returned -1.9% while 2CHYP has returned 6.9% indicating outperformance of 8.8%. As you know, equity markets are uncertain, so we can never predict future performance, but we can attribute past performance. I believe the outperformance in 2CHYP has been largely due to its dividend engine.

### The dividend engine

Over its 21 month lifespan, 2CHYP has collected \$13,766 in dividends. We intend to grow the dividends over time and the yield on initial capital has risen substantially. Thus far, the average dividend yield of 2CHYP against its initial \$100,000 of capital has been 7.87%.

Today, it has a carrying yield of 9.22% which equates to a yield against initial capital of 9.72%. Our intention is to continue to increase the yield against initial capital and there is a method in which to do this in both challenging environments and favorable times. Given that REITs are down since we started, it has largely been challenging times.

### Navigating challenging times

2CHYP was funded on 7/1/16 which was close to the peak of the REIT market. Since that time, a number of challenges have presented themselves:

- Retail downfall
- Tech bubble
- Rising treasury yields
- Peak supply

I consider the chief advantage of active management to be the flexibility to navigate through rough waters. When the market drops it will often drop in unison; the fundamentally strong falling in tandem with the fundamentally weak. With pricing parity, we can sell out of the fundamentally disadvantaged and trade into the fundamentally advantaged. As the market recovers, the companies who better handled the headwinds should bounce back more strongly. Each time we get to sell an appreciated position to buy a discounted alternative, it increases the absolute dividend yield of the portfolio.

### **Risks and concerns**

Regarding diversification, there are 2 types;

- Fundamental diversification
- Price correlation

We believe 2CHYP is reasonably diversified fundamentally, but there is substantially more risk with the price correlations. I have no idea why a prison REIT would move up and down in tandem with a telecom infrastructure REIT, but the fact of the matter is that they do. With high price correlations this sort of portfolio would not be appropriate for those with a short investment horizon or low liquidity. The fundamental diversification inherent to these holdings will only mitigate risk if an investor can hold for the long term.

2CHYP is often balanced between economically defensive stocks and cyclicals, but the holdings revealed here are more heavily weighted toward cyclicals with an overweight in both industrials and hotels. This is because we are bullish on the economy. In the event that we are wrong and recession hits either earlier or more severely than we are anticipating, these overweights could cause underperformance.

### **Portfolio return catalyst**

As 2CHYP's holdings are primary predicated on high yield and value, it can take a long time to realize returns. Presently, however, there seems to be a catalyst which could accelerate realization of intrinsic value: Late cycle M&A.

### **Positioned to benefit from late cycle M&A**

Across many REIT sectors we have seen a pickup in M&A activity. Often, M&A will be more beneficial to the target rather than the buyer. The holdings of this portfolio seem more likely to be targets for the following reasons.

- Discount to NAV
- Low multiple
- High cost of capital

### **The Bottom Line**

With the ample opportunities in the present environment we are exuberant about the future prospects of 2CHYP. I can only hope this exuberance is not the irrational kind Shiller warned about.

### **Important Notes and Disclaimer**

The holdings presented were the entire holdings of 2CHYP as of 3/31/18, but may not represent the holdings for other time periods. We do not intend presentation of 2CHYP's holdings as a recommendation, but rather as a statement of historical fact.

We cannot determine whether the portfolio holdings presented are suitable for any given reader. Readers are encouraged to contact their financial professional to discuss the suitability of any strategies or holdings prior to implementation in their portfolio.

The specific securities identified and described herein do not represent all of the securities purchased or sold for advisory clients of 2nd Market Capital Advisory Corporation (2MCAC). It should not be assumed that investments in the securities identified and described were or will be profitable.

A list of all prior purchases and sales made by the investment advisor representative (Dane Bowler) in the 2CHYP portfolio is available upon request. It should not be assumed that purchases and sales made in the future will be profitable or will equal the performance of the securities in this list.

All content that relates to 2CHYP's future performance are considered forward-looking statements. These forward-looking statements involve uncertainties that could cause actual performance or results to materially differ, and readers are cautioned not to place undue reliance on them.

**Benchmark Comparison:** 2CHYP is compared to the iShares U.S. Real Estate ETF because it is a common method for investing in a portfolio of REITs and we view it as a competitor or alternative to 2CHYP. IYR has fees that are factored into performance, while 2CHYP does not have a fee aside from trading commissions which are factored into performance. 2CHYP's dividends are reinvested, while IYR's dividends are paid but not reinvested.

**Strategy and market conditions:** 2CHYP uses a bottom up stock selection process which may fare better in certain market conditions than in others. It may perform better when value is in favor or worse when value is out of favor.

**Expenses:** Returns reflect the deduction of any transaction expenses. There are no costs or management fees charged nor deducted.

**Past performance does not guarantee future results.** Investing in publicly held securities is speculative and involves risk, including the possible loss of principal. Historical returns should not be used as the primary basis for investment decisions. Although the statements of fact and data in this article have been obtained from sources believed to be reliable, 2MCAC does not guarantee their accuracy, and assumes no liability or responsibility for any omissions/errors.

**Calculation Methodology:** 7 quarter return for the period 7/1/16 through 3/31/18, unaudited. Dividends in 2CHYP are reinvested.

2<sup>nd</sup> Market Capital and its affiliated accounts are long CXW, GNL, GOV, GPT, HT, IRM, JCAP, KRG, MPW, PLYM, SOHO, STAG, UMH, UNIT, and WPG. I am personally long CXW, GNL, GOV, GPT, HT, IRM, JCAP, MPW, PLYM, SOHO, STAG, UMH, UNIT, and WPG. This article is provided for informational purposes only. It is not a recommendation to buy or sell any security and is strictly the opinion of the writer. Information contained in this article is impersonal and not tailored to the investment needs of any particular person. It does not constitute a recommendation that any particular security or strategy is suitable for a specific person. Investing in publicly held securities is speculative and involves risk,

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