



2022 Annual Letter

“There are two classes of forecasters, those who don’t know and those who don’t know they don’t know”

John Kenneth Galbraith

January 1, 2023

Happy New Year!

To say 2022 was a wild year would be a massive understatement! As Galbraith said in his famous quote above, it’s extremely difficult to forecast future events, because by definition these events haven’t happened yet. So, what happened this year that wasn’t expected and definitely not “in the forecast,” a partial list is below:

- 1) A War in the largest country in Europe
- 2) The fastest pace of interest rate increases in the history of the United States
- 3) Inflation becoming a topic of conversation again for the first time in 40 years or so
- 4) Multiple companies losing over \$500 billion in market value in one year (META, Amazon, Tesla)
- 5) The U.K. had the shortest tenured prime minister in history
- 6) The worst year for bonds on record
- 7) A Terrible year for stocks
- 8) Real estate went from being a darling to “not financeable”
- 9) Sam Bankman Fried stole over \$8 billion from very sophisticated people using FOMO, Crypto bro lingo, and a firehose of constant fresh capital to feed a Potemkin Empire built on hope, bogus assets and straight up grift/theft.
- 10) Financing across all assets went from being highly available and cheap to much more scarce and very expensive
- 11) An “all asset bubble” was finally burst.

Given all of this uncertainty and the wild year we all experienced, what will 2023 and forward look like? In order to answer that, I think its best to invert the question. So instead of thinking about what will change, it’s easier to determine what will stay the same. At CAP we believe the following will stay the same:

- 1) Buying properties at good prices and upgrading them and increasing rents is profitable when done correctly and financed conservatively.
- 2) Markets will always have competitors doing dumb things that don’t make sense. Instead of trying to understand their actions, it’s best to steer clear and allow them to implode and then clean up the wreckage using smart business practices.



- 3) Markets will always fluctuate. Being disciplined and patiently waiting for asset valuations to meet your return criteria is important.
- 4) Being a low-cost operator will always be a competitive advantage.
- 5) Acting quickly and decisively on good opportunities will always be one of the least understood advantages. Large bureaucracies just don't have any ability to do this and have given up trying or never could in the first place.
- 6) In real estate being local and understanding the nuance of submarkets is an incredible advantage.
- 7) Being fair trustworthy, and easy to work with allows a small team to do the work of much larger teams at firms that don't have these values.

CAPs mission

At CAP, we believe alternative investments have been given a bad reputation by operators with high fees, dodgy practices and "ivory tower" managers who don't get down in the weeds to understand the assets they are investing in. We take the opposite approach. We manage all of our funds actively. We are extremely involved in important decisions relating to asset management and capital deployment and we do this with a low fee and an aligned model with our limited partners. Now that we have been doing it our way for over 12 years, I am more convinced than ever that we are helping to disintermediate an industry that is ripe for disruption.

Active Funds

We currently are investing out of six (6) active Funds, with Ironwood being the only fund open to new investment currently. The summary of our funds is below:

	Start Date	Raised	(Inc Distributions) Current Value	Distributed
Fund III	January 2018	\$1,600,000	\$9,000,000	\$4,800,000
Fund IV	October 2018	\$2,200,000	\$11,500,000	\$8,500,000
Fund V	October 2019	\$4,200,000	\$10,000,000	\$0
Sidecar Fund I	January 2021	\$7,200,000	\$13,600,000	\$3,000,000
Ground Up Fund	January 2022	\$14,000,000	\$14,000,000	\$0
Ironwood Fund	Various (ongoing)	\$1,800,000	\$ 2,329,000	\$0
JVs/TICs	Various	\$30,000,000	\$65,000,000	\$35,000,000
SUBTOTALS		\$61,000,000	\$125,429,000	\$51,300,000

*Above figures are estimated dollar amounts based on the Manager's current valuation based on market conditions

So what are the total "admin" costs being paid out of these six (6) active Funds to manage them? Approximately 1/20 of 1% or \$60,000. This is for two annual audits (Ironwood and Fund V), tax returns and minor legal costs, etc. If these Funds were being run under a traditional 2/20 fund structure, the annual costs would be well in excess of \$2 million. Instead of this capital being sucked annually out of the Funds (negative compounding), it can be reinvested at high rates of return to compound the capital. That is the CAP model.



Fund Summaries (See appendix of this letter for pictures and some sample deals)

Fund III (Formed January 2018)

		NET VALUE
Prior Distributions		\$4,800,000
Bella Villas (21 units Scottsdale)	100% ownership	\$2,500,000
Cash and Cash Equivalents		\$ 600,000
Greenhouse	5% Ownership	\$1,100,000
SUBTOTAL		\$9,000,000

Fund IV (Formed October 2018)

		NET VALUE
Prior Distributions		\$8,500,000
Rio Salado Place	42% Ownership	\$1,700,000
McKemy Manor	25% Ownership	\$ 500,000
Cash and Cash Equivalents		\$ 800,000
SUBTOTAL		\$11,500,000

Fund V (Formed October 2019)

		NET VALUE
Prior Distributions		\$0
4202 N 10 th Street	87.5% Ownership	\$ 900,000
3107 N 39 th Street	40% Ownership	\$2,000,000
Greenhouse	2.5% ownership	\$ 550,000
Los Porticos	65% Ownership	\$1,450,000
Fountain Villas	65% Ownership	\$1,500,000
Monte Vista	38% Ownership	\$2,750,000
Cash and Cash Equivalents		\$ 150,000
Member loans to projects		\$ 100,000
Management Fee Advance Payable		\$ 100,000
Scottsdale Shadows	35% Ownership	\$ 500,000
SUBTOTAL		\$10,000,000

Sidecar Fund (Formed January 2021)

		NET VALUE
Prior Distributions		\$3,162,000
Greenhouse	17.5% ownership	\$3,850,000
Los Porticos	15% Ownership	\$ 340,000
Fountain Villas	15% Ownership	\$ 360,000



CAP Ogden	96% Ownership	\$1,500,000
CAP 45 th Place	98% Ownership	\$1,000,000
CAP MOB (52 nd and McDowell)	45% Ownership	\$1,000,000
McKemy Manor	25% Ownership	\$ 500,000
Cash and Cash Equivalents		\$ 563,000
Member Loans to projects		\$ 825,000
The James	8% Ownership	\$ 500,000
SUBTOTAL		\$13,600,000

CAP Ground Up Fund I (Formed January 2022)

		NET VALUE
Prior Distributions		\$0
53 rd Street and Thomas Project	27% Ownership	\$1,625,000
3 rd Street and Thomas Project	27% Ownership	\$1,075,000
Thunderbird and 73 rd Avenue		\$ 475,000
Cash and Cash Equivalents		\$10,760,000
Land Pursuit Costs and Formation Fees (net of int income)		\$ 65,000 (.5%)
SUBTOTAL		\$14,000,000

Ironwood Fund (Formed as sole manager January 2019)

		NET VALUE
BNC Bank	30,000 shares	\$798,000
LSB Industries	53,950 shares	\$763,000
Berkshire Hathaway (B Shares)	1,000 shares	\$307,000
PAR Technology	7,000 shares	\$170,000
Madison Square Garden Sports	200 shares	\$ 36,000
Spark Industries	149,000 shares	\$104,000
AllBirds	11,400 shares	\$ 26,000
Other/Cash		\$125,000
SUBTOTAL		\$2,329,000

Compounding - (from prior year's annual report and a subject that can never be underestimated)

"Take up one idea. Make that one idea your life – think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea, and just leave every other idea alone. This is the way to success."

– Swami Vivekananda



Many of you have heard me espouse the benefits of compounding. In fact I wouldn't be surprised if many of you are tired of hearing about this. But I truly believe they're worth repeating. Compounding is an extremely powerful tool to have in the toolbelt when competing in businesses. CAP is founded on the principles of low fees, alignment of manager and investor interests, and high compounding. When these three things come together; you end up with a very strong system with meaningful competitive advantages. While our competitors are running their own games (high fees, large staff, individual deal focused), we are building and executing a compounding game that over a long period of time makes CAP extremely difficult to compete with due to the capital base becoming larger and larger (which gives us access to discretionary capital and more deal flow being a larger player in the market). **For example, a \$100K investment in Fund II in 2012 and rolled into Fund IV in 2018 would be worth approximately \$2,100,000, a 21X equity return in ~9 years.** An interesting fact about this result is that one would have to had invested in the S&P 500 in around 1989 and held through 2021, a 32-year period, to have a similar return.

When thinking about compounding, it is helpful to have shortcuts or heuristics to understand the math and how powerful it is. The heuristic we like to use at CAP is the "26% rule". Using the 26% IRR rule, one can see that money doubles every 3 years if you can compound at 26%. If you do this 10 times (10 doubles, 30 years), you can add three (3) zeroes to any number, so \$1 million turns into \$1 billion. See table below;

\$1,000,000 X 1.26 X 1.26 X 1.26 = \$2,000,000
\$2,000,000 X 1.26 X 1.26 X 1.26 = \$4,000,000
\$4,000,000 X 1.26 X 1.26 X 1.26 = \$8,000,000
\$8,000,000 X 1.26 X 1.26 X 1.26 = \$16,000,000
\$16,000,000 X 1.26 X 1.26 X 1.26 = \$32,000,000
\$32,000,000 X 1.26 X 1.26 X 1.26 = \$64,000,000
\$64,000,000 X 1.26 X 1.26 X 1.26 = \$128,000,000
\$128,000,000 X 1.26 X 1.26 X 1.26 = \$256,000,000
\$256,000,000 X 1.26 X 1.26 X 1.26 = \$512,000,000
\$512,000,000 X 1.26 X 1.26 X 1.26 = \$1,000,000,000

We take this math very seriously at CAP and aim to try and hit 26% by finding good places to invest capital, keeping expenses low and moving quickly on our real estate deals to drive high IRRs. For reference, all our active Funds (6) have done 26% or more in IRR.

TEAM

As I said at the beginning of this letter, this was a wild year! In the construction area of our business, Geoff had to deal with extremely difficult circumstances with supply chain issues, constant labor issues and overall challenges with subcontractors. Tracy handled the finances extremely well and kept the trains running on time (and vendors paid) so we can focus on getting



projects completed quickly. Chad got us three (3) ground up projects that will pay dividends into 2024 and John helped us wrap up the Ground Up fundraising and asset management of CAP projects. Our 3rd party vendors such as Zendoor, Western Fence, Associated Sign, Compas Landscaping and Platinum Pools did an amazing job helping us handle all of the aspects of our portfolio, we are lucky to do business with them all.

Tax & Annual Statement Matters

We strive to get K1s out to our investors as early as possible. Generally, we aim to have K1s out by mid-February, except for the Ironwood Fund which is closer to the beginning of March. Also, we will continue to update the investor portal with new information on properties and valuation. We are focused on having accurate valuations in the portal for our assets, however, recognize that this is a very fluid investing environment and valuations fluctuate with markets.

Call for Action

If you currently have your investments with a high-cost advisor, are looking for new places to allocate money or have a stranded 401K or IRA that you don't know what to do with, I highly recommend thinking about moving it to either the Ironwood Fund or our new income fund (more on this to come in Q1 2023). We are active managers with an extremely low-cost structure (as outlined above). My personal investment in these funds is large and concentrated, so I care about the results A LOT and therefore my results are your results when you invest in a CAP Fund. The onboarding process is very efficient and streamlined at CAP and our self-directed third-party IRA firm (Midland) can make the IRA investment process simple for new and/or existing investors.

I will stop there. But again, I want to wish you all a happy healthy, and prosperous New Year. The entire CAP team and I will be working hard to do our part in contributing to the prosperity of those wishes!

Nathan Reid

Nathan Reid
Lead Sherpa

Appendix (2022 Annual Letter)



Sakara Villas

Purchase Price	\$6,700,000	Sales Price	\$10,000,000
Purchase Date	05/06/2021	Sales Date	09/23/2022



Pines at Papago

Purchase Price	\$4,100,000	Sales Price	\$7,410,000
Purchase Date	4/16/2021	Sale Date	7/1/2022