LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

November 2019

The Search for Yield: Chapter 2

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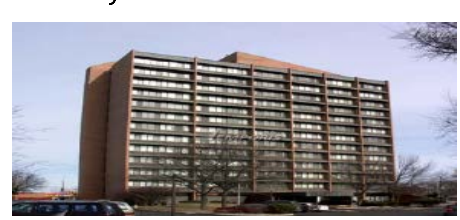
CEO, Principal

Last month, our partner Trip's article focused on the search for yield. Given today's rate environment (lower rates for longer), where can you go to find high quality, income-producing investments? High yield bonds? That's a crowded trade and there is always default risk. Treasuries? Low risk, but also low yield and low return. Dividend-yielding stocks? Also a popular trade and there is always the potential for a long-overdue market correction. Where do you look?

At Lanier, we are constantly barraged by fund managers trying to sell us on their latest investment ideas. Some are good ideas. Most are ho-hum. Very few are – in our opinion – solid income-producing investments (i.e., bond replacements) that provide potential for strong upside returns. But they are out there. You just have to look hard.

As an example, we recently discovered one very intriguing strategy. An experienced management team recently launched a series of alternative real estate funds. Fund I completed fundraising and closed in October. The Fund sold out in a month. Fund II is planned to launch in early 2020. The Fund is targeted to pay 8%/year yield on capital deployed with additional return expected at the end of the 4-6 year expected life of the fund. How does it work?

The strategy will invest in the undersupplied, multi-family, affordable housing market. Their targeted segment of the market offers highly predictable returns with countertrend characteristics to the US economy. The fund managers identify properties where prudent capital improvements can substantially improve the living conditions in the complex and justify an increase in rent from below-market levels to market levels. How do they know they will be able to increase the rents? 70-80% of the Fund will be invested in Section 8 apartment buildings where the rent increases are subsidized by government programs and have no impact to the amount that the tenant pays. And how do they know the increased subsidies will occur? Because they negotiate the deals with HUD before they buy the properties. Brilliant. Low vacancies on the properties because of long waiting lists of renters that want to move in. Low bad debt as HUD pays ~80% of the rent via a monthly wire to the owner.



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Once the properties are purchased and the capital improvements have been made, they will be held for a year or two (season them) and then package them and sell them to a long list of strategic buyers: REITs, insurance companies, pension funds, private equity funds, etc. All of these potential buyers are eager to find stable cash-generating investments but don't want to spend the time chasing $5 million deals that won't move the needle. But a $200 million deal will. Brilliant.

Are there downsides? Sure. Your investment is illiquid over the 4-6 year expected life of the fund. Could the government eliminate subsidies? Yes, but removing or reducing this benefit to working class America would be political suicide. Could the real estate market fall apart just when they are trying to sell? It could, but they have the flexibility to wait to sell and you are still getting paid 2%/quarter to wait! And if the economy heads south and you own a property where HUD is paying 80% of the rent, won't that be somewhat shielded from the downside? We think it will.

This strategy isn't for everyone. And it is limited to sophisticated, accredited investors. But we think it is truly interesting. It's a niche strategy, but one that could fit well in a bunch of portfolios (including mine!).

Yield producing strategies do exist. You just have to turn over a bunch of rocks before you find the good ones.

Mark is a co-founder of Lanier Asset Management and serves as its Chief Executive Officer. Prior to founding Lanier, he was a partner at The Boston Consulting Group. Mark is an honors graduate of The University of North Carolina at Chapel Hill with a BA in Economics, and holds an MBA from The Harvard Business School.

Key Points From Our Investment Meeting – 11/14/19

Macro Viewpoint

- Impeachment proceedings have begun, although the markets seem to believe that the likelihood of it actually happening are remote.
- US and China trade talks continue although with less impact in volatility to the markets. Short- and long-term effects on US and global GDP remain a big question mark.
- ISM and manufacturing data, while somewhat better in October, are still below a reading of 50 which suggests contraction.

Asset Class Comments

- Value stocks have underperformed growth stocks for the last ten years. Is it time to look to large cap value?
- Fixed income has always provided a buffer and income stream for investors. Those days seem to be over.
- Commodities continue to be out of favor as the dollar continues to rise and global GDP growth continues to slow.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		October	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.2%	0.2%	1.9%	2.3%	1.7%	1.1%	0.8%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		0.3%	0.3%	9.7%	12.5%	3.5%	3.4%	2.8%	3.7%
Vanguard Total Bond Market	VBMFX	0.2%	0.2%	8.8%	10.3%	3.2%	3.1%	2.6%	3.6%
RiverNorth Doubleline	RNDLX	0.1%	0.1%	10.2%	7.9%	4.3%	4.0%	4.0%	4.6%
Eaton Vance Floating Rate	EIBLX	-0.4%	-0.4%	4.9%	1.9%	3.9%	3.8%	3.7%	4.7%
US Preferred Stock ETF	PFF	0.4%	0.4%	14.2%	7.1%	4.3%	4.6%	4.9%	7.0%
High Yield (Barclays US Corp HY)		-0.1%	-0.1%	12.0%	8.6%	5.4%	4.3%	3.5%	5.2%
Short Term High Yield	SJNK	-0.4%	-0.3%	7.4%	3.6%	4.9%	3.4%	3.8%	6.1%
Equities									
Domestic Large Cap (S&P 500 TR)		2.0%	2.0%	21.2%	12.0%	12.6%	8.5%	11.6%	11.4%
S&P Equal Weight	RSP	1.2%	1.2%	21.4%	3.2%	12.1%	8.7%	13.1%	13.5%
Domestic Mid Cap (S&P 400 TR)		1.1%	1.1%	19.2%	9.0%	10.8%	8.2%	12.0%	13.1%
Vanguard Mid-Cap ETF	VO	1.1%	1.1%	23.9%	3.6%	12.2%	8.7%	13.0%	13.7%
Domestic Small Cap (S&P 600 TR)		2.0%	2.0%	15.7%	3.2%	11.7%	8.7%	12.7%	13.8%
Vanguard Small-Cap ETF	VB	1.7%	1.7%	19.6%	-3.9%	13.6%	9.1%	12.9%	13.9%
Developed Intl. (MSCI EAFE)		3.5%	3.5%	13.7%	7.7%	6.3%	3.0%	5.6%	4.8%
MSCI EAFE	EFA	3.4%	3.4%	16.2%	-1.8%	8.1%	3.9%	6.3%	5.4%
Emerging Intl. (MSCI EM)		4.1%	4.1%	7.9%	9.0%	5.5%	1.9%	2.3%	3.2%
Vanguard FTSE Emerging Markets ETF	VWO	4.0%	4.0%	10.7%	-0.4%	5.7%	2.0%	2.7%	3.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		1.1%	1.1%	27.5%	21.9%	10.2%	8.2%	9.8%	13.4%
Mortgage Real Estate	REM	2.7%	2.7%	15.5%	5.7%	10.7%	7.9%	7.0%	8.8%
REIT ETF	VNQ	1.1%	1.1%	29.6%	19.8%	9.6%	8.1%	10.1%	13.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		1.1%	1.1%	18.8%	-5.7%	8.7%	-5.4%	-5.0%	-2.7%
DBC	DBC	1.9%	1.9%	5.8%	-15.2%	1.3%	-6.4%	-8.9%	-5.1%
BlackRock	BCSAX	1.2%	1.2%	6.3%	-7.6%	3.3%	-1.9%	-3.5%	-1.6%
Gold	GLD	2.6%	2.6%	17.5%	23.2%	5.3%	6.7%	-1.0%	3.0%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.4%	0.4%	7.2%	4.1%	4.1%	3.1%	4.1%	4.0%
INFINITY*	OCEAN	0.2%	0.2%	5.2%	3.1%	4.2%	4.5%	6.2%	6.3%
Boston Partners Long/Short Equity	BPLEX	0.9%	0.9%	5.8%	-0.1%	-1.1%	1.1%	2.9%	6.4%
Millennium*	MILLENN	1.1%	1.1%	7.1%	5.0%	6.9%	7.8%	8.6%	8.8%
Verition*	VERITION	1.6%	1.6%	11.5%	8.7%	7.9%	8.5%	11.1%	10.4%
Renaissance*	RENAISS	2.0%	2.0%	12.3%	13.4%	12.1%	14.9%	14.3%	16.1%
Third Point*	THIRD P	-1.4%	-1.4%	10.2%	4.2%	4.2%	3.1%	6.7%	9.5%
Lanier Hedge Fund*	LHF	0.7%	0.7%	8.1%	5.6%	6.1%	6.9%	8.5%	9.2%
Boston Partners Global Long/Short	BGLSX	0.1%	0.1%	3.7%	-1.5%	0.9%	1.7%	3.4%	3.6%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
CEO, Principal

Junius V. (Trip) Beaver, III
Co-Chief Investment Officer, Principal

Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

John A. Hamilton
Financial Consultant

John E. Thompson
Director, Private Client Group

Dr. Daniel L. Bauer
Financial Consultant

Sara B. Thomas, JD, CPA
Financial Consultant

Deidre M. Durbin
Chief Compliance Officer

Stephanie E. Milby
Investment Associate

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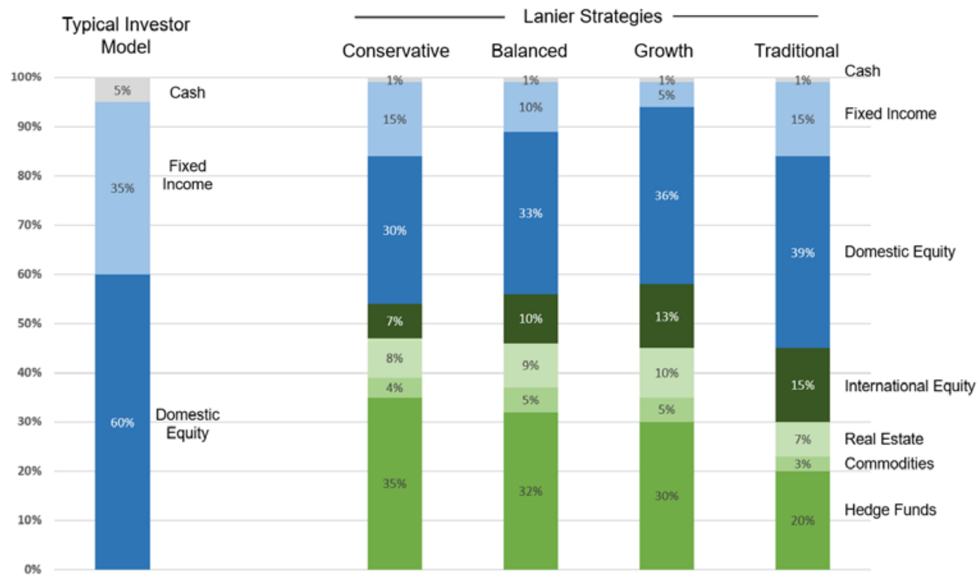
Our Approach

At Lanier, we believe that portfolios designed to deliver superior performance and lower correlation with the overall markets must decrease reliance on stocks and bonds and be complemented with a set of diversifying strategies and alternatives



Each of our clients has a unique set of needs (based on age, risk tolerance, income need, etc.) and an asset allocation model designed specifically to meet those needs. Consequently, actual client investment models can and do vary from the allocation percentages listed above.

Lanier Asset Management is an independent Registered Investment Advisory firm. Our mission: ***To Build Confidence and Security in our Clients' Financial Future***. We use an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four distinguishing elements:

- **People**: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
- **Investment Philosophy**: we seek to smooth investment returns, providing superior investment performance and a significantly lower correlation to the overall market
  - Focus on projected returns rather than historic for all asset classes
  - Similar to the largest U.S. endowments
- **Investment Process**: combine active and passive management in traditional asset classes; complement with diversifying strategies/ alternatives
- **Conviction**: we believe in our approach – this is how we invest our own money

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