ALTERNATIVE INVESTMENTS QUARTERLY

AI QUARTERLY

SPRING 2022
VOLUME 16
ISSUE 1

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ADISA

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Executive Director's Letter

Our First *Meet Your Regulator* Event

By John Harrison, *DBA*
Executive Director, ADISA

January 2022 marked a step forward in ADISA's advocacy efforts with the implementation of our first *Meet Your Regulator* event. We began with a program for regulators from around the Southeast and met in Alabama's state capital, Montgomery. The purpose of the *Meet Your Regulator* initiative is to connect ADISA members with state securities staff to better understand each other's point of view. State securities regulators learn the basics of alternatives: their attributes and why investors use them in portfolios, and the ADISA contingent learns more of what the regulators look for and how our trade association can serve as a resource. Of course, the agenda also encourages networking and discussion on investment topics all around.

The Southeast regional event took place at the Alabama Securities Commission office and was planned in concert with Joseph Borg, Director of the Commission. Director Borg and his team welcomed state regulators from seven states for a day of learning and dialogue. The couple dozen attendees were eager to better understand the fundamentals and some nuances of alternative investments. We capped off the day with a tour of the Alabama State Capitol and a dinner atop the Regions Bank building in downtown Montgomery.

ADISA members Greg Mausz, Preferred Capital Securities; John Grady, ABR Dynamic Funds; and Kirk Montgomery, Practus were instrumental in planning and delivering the content for the program. Our government relations team of Thomas Rosenfield and Anne DarConte with HillStaffer and I managed the event. Further assisting ADISA to hone the messaging for regulators were attendees David Pittman, Strategic Blueprint, and Richard Weiss International Assets Advisory. The program content featured a march through the various current retail

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alternative products and the ways they are commonly used in portfolios.

The questions asked by the regulators gave us some insight into their point of view. For some products, they never see the upside from where they sit, of course, only the problem cases. Like a physician who only sees sick patients, they can forget there's a whole healthy world out there. I found it most interesting that the regulators wanted to know more about the usual data gatherers we use (e.g., Stanger, Mountain Dell, AI Insight, etc.), for it was news to many of them that such data collection even exists. Indeed, when ADISA presented industry statistics on the extent and performance of various types of alts investments, some of the regulators expressed surprise and relief that there are benefits to the products. That is understandable if the regulators only see the bad cases with no reference to the norm.

This program hopes to help diminish the "us versus them" mentality that can characterize the industry-regulator dynamic. ADISA believes that a two-way dialogue can aid in promoting understanding, which can be a productive step forward in finding common ground. With the success of the initial meeting, ADISA is planning additional Meet Your Regulator dates in other regions across the U.S. By establishing this conduit for education and communication, both sides benefit. Regulators can develop a deeper knowledge of the intricacies and varieties of alternative securities. They also see the metrics, overall trends and success stories. And we, as an industry and professionals, can appreciate the perspective that regulators bring to the table.

Stay tuned for announcements about additional regional *Meet Your Regulator* programs. The great work done by ADISA's government relations team, headed by HillStaffer, plus the comprehensive content of the program put together by Mausz and Grady has set a high bar. Of course, the amazing hospitality shown to everyone by the Alabama folks will be tough to beat. I am proud of our work with this unique program done on behalf of you, our members, and look forward to expanding to other parts of the country. ▲

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ADISA's New Product Improvement Effort

By *The Alternative Investments Betterment Committee—subcommittee of ADISA's Standards, Education & Publications Committee*

"I just wish you all would compile a list or some kind of plan for evaluating alts," has been heard before at many an ADISA meeting. ADISA is proud to announce that after months of effort, it is doing just that. The Alternative Investments Betterment committee is a subcommittee of ADISA's Standards, Education & Publications Committee, co-chaired by Greg Mausz, Preferred Capital Securities, and Lilian Morvay, Independent Broker Dealer Consortium, and in efforts formally started about one year ago by ADISA President Sherri Cooke, iCapital, presented a first draft of the work done by committee members Brad Updike, Mick Law; Travis Hicks, Independent Financial Group; Michael Miller, Sigma Financial; Darryl Steinhause, DLA Piper; Ann Moore, International Assets Advisory; and Angela Barbera, NexPoint Securities.

After rounds of input solicitation at ADISA events from attendees and on the website from the general membership, the latest draft is ready for publication. It is called "draft" because the document is envisioned always to be a work in progress with updates and addenda.

"Input from readers and users is part of our hope to have a living document that can be a real benefit to the quality of investment products in the industry," said Sherri Cooke, current ADISA president and one of the originators of this rekindled effort. Indeed, ADISA plans to host the latest version of the document in its Membership Portal, so that it is viewable by members anytime.

The "movement" to improve the quality of alts (here referring to alternative investments available to individual investors through the retail IBDs and RIA chain) has been afoot for a decade or more, but is finding new legs with the growth of the alts market. Recently, investment in the space has grown significantly, and many larger players have entered. This causes increased visibility for the retail alts space and increased efforts to improve product quality on behalf of associations operating in the industry.

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In approaching the problem to solve, that is, constructing a document useful for overall guidance in analyzing alternative investment product, the authoring committee modeled the "gap analysis" approach. That approach, said Greg Mausz, "begins to take us from where we are to where we want to be.

In approaching the problem to solve, that is, constructing a document useful for overall guidance in analyzing alternative investment product, the authoring committee modeled the "gap analysis" approach. That approach, said Greg Mausz, "begins to take us from where we are to where we want to be. It outlines the factors contributing most to better performance metrics; it's obviously not a guarantee of performing those metrics, but it is part of best practices to certainly increase the probability of enhanced performance."

From the report:

- We recognize that there are four distinct gateways that need to collaborate to deliver the best possible products and outcomes to our clients or protect them from accessing sponsors and/or their products that have higher risk profiles: (1) Sponsor/Product Manufacturers (2) Sponsor law firms (3) Independent Due Diligence Providers, and (4) Product Distributors (BDs/RIAs/Advisors). By looking at all four areas we believe we will have the greatest potential to have the most positive and lasting influence on the Alternative Investment due diligence process.
- As we work to create guidance for what historically may have been minimized (aka "Gap") considerations[1], we also cannot overemphasize the importance of heeding what some people call red flags and others call gut feelings. For example, if there are sponsors who are pushing the boundaries of legal and tax issues which are open to the public what happens with respect to areas that are not visible by the public? The health of our industry is part science, part art, and part common sense. We need to ensure an increased and more consistent awareness and abidance of all three of these diligence indicators. The mission of this Gap analysis is to shed light on these diligence indicators and the necessary collaboration amongst the 4 gateways to create a more consistent industry wide due diligence and distribution process.

The GAP analysis report compiled by ADISA's AI Betterment Committee builds on the original FINRA notice (RN 10-22) as well as many methods used by due diligence firms and broker-dealers in first considering the basics of reviewing a sponsor. Indeed, this is the first "installment" of the four gateway plan mentioned above, and it expounds first on the sponsor review process (additional reports on the remaining three gateways of sponsor law firms, third party due diligence providers, and product distributors are in the planning phases).

The topics explained in the Sponsor Review section:

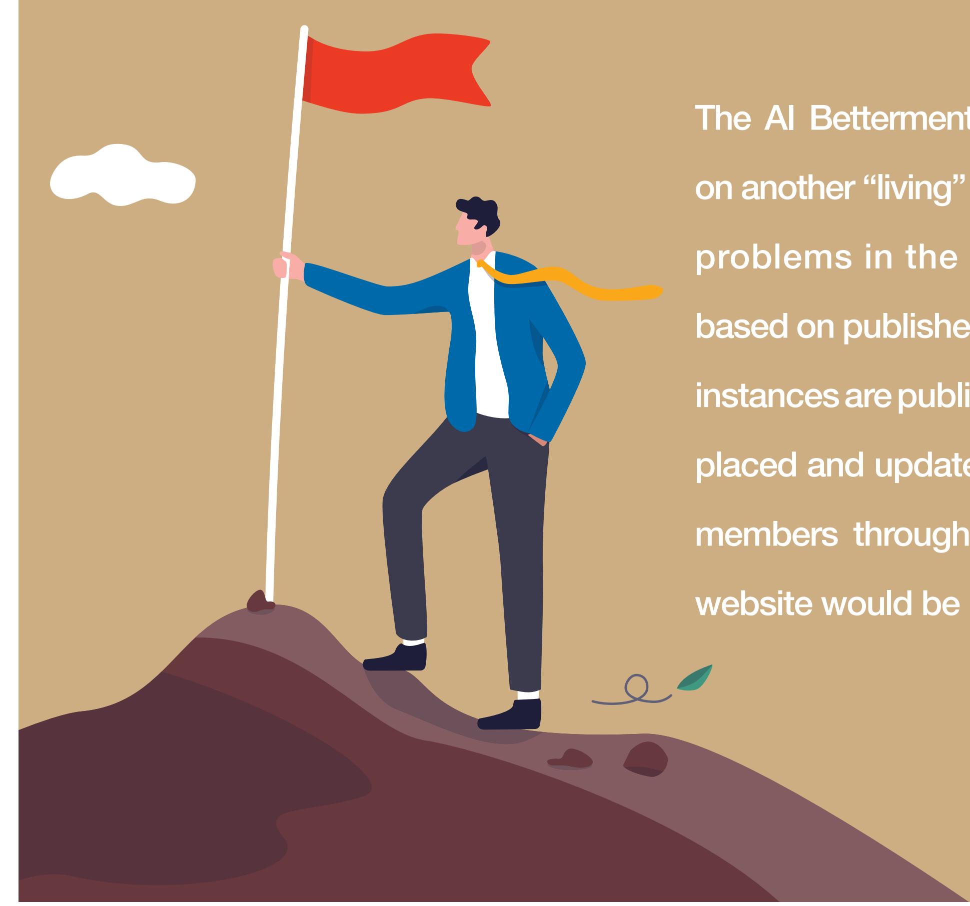
1. Management Team Depth and Experience
2. Organizational Structure
3. Track Record (depth of enterprise experience)
4. Business Plan/Investment Strategy
5. Financial Analysis (Financial Viability/Accounting System Integrity)
6. Use of Third Party/ Independent Due Diligence
7. On-site Due Diligence
8. Other Considerations (such as: MBDs, disclosure items, affiliated transactions, public website, offer promotions, insurance, BD community confidence, and style drift)

The ADISA GAP Analysis notes such things about the sponsor's reporting overall: —Are supplements and other investor communications expected on a timely basis? How are these communicated to BDs, reps and investors? Are there samples of the sponsor's investor communication, and are they complete in depth and accuracy of information? Are returns being shown net to investors? Are they providing financial statements? Do they explain the good outcomes with the bad outcomes?

As a supplement to the Sponsor Review section of the Gap Analysis, the authoring committee compiled a summary chart to be used in conjunction with the Gap Analysis for each section as it is developed: [excerpt from the draft]:

All Parties/Gateways to Alternative Investments are Responsible for these Key Considerations
(Summary Chart to be used in conjunction with Alternative Investment Industry Diligence Gap Analysis Initiative)

	Primary/Origination Source May Be As Indicated Below (X)			
	Sponsors/ Product Manufacturers	Sponsors Law Firms	Product Distributors (Broker-Dealers/ RIAs, Advisors)	Independent Due Diligence Providers
Part 1(a): Sponsor				
Management Team Depth & Experience (Operational Process/Balance)				
Experienced operational supervision				X
Key personnel bios/interviews			X	X
Appropriate/Adequate Staffing				X
Organizational Structure				
Review operational agreement				X
Background checks with validation				X
Board/controlling person controls				X
Management controls				X
Track Record (Depth of Enterprise Experience)				
Relative to key executives' roles in past program performance	X	X		X
If Any Funds had poor performance, what went wrong? What was learned?	X	X	X	X
Was any poor performance related to the current management team?			X	X
Track record in both up and down markets?			X	X
Is track record verifiable?	X	X		X
Why is sponsor raising capital in the retail Broker Dealer channel			X	X
[continued...]				



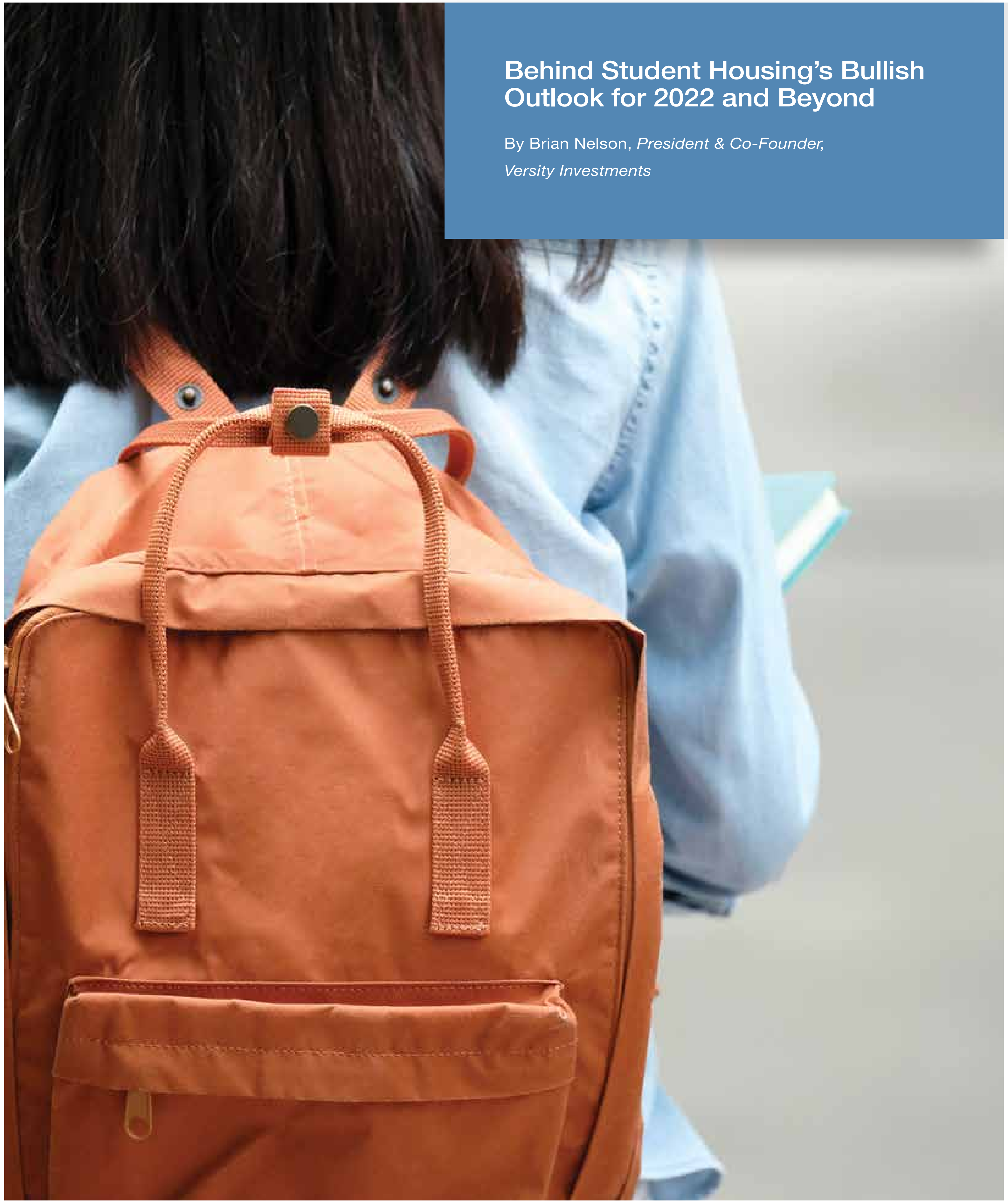
The AI Betterment Committee is also planning work on another "living" document based on current known problems in the industry: a "red flag" summary, based on published legal notifications. Although such instances are publicly available, having the information placed and updated in one place, available to ADISA members through its Members Only portion of the website would be useful guidance.

As one can see, the four gateway approach is easily understood and when approached with the right information and spirit can provide effective measures for evaluation. The Gap Analysis provides explanation and guidance so far for the Sponsor Review, and the further sections are underway. Also, on tap for the AI Betterment Committee and soon forthcoming is a complete revision and update (based on work originally done by TICA in 2006) of best practices guidance for evaluating 1031 DST's. Several in the committee are working on that document with their publication due for unveiling at ADISA's Spring Conference.

As if those efforts were not ambitious enough, the AI Betterment Committee is also planning work on another "living" document based on current known problems in the industry: a "red flag" summary, based on published legal notifications. Although such instances are publicly available, having the information placed and updated in one place, available to ADISA members through its Members Only portion of the website would be useful guidance. Said Committee Co-chair Lilian Morvay (IBD Consulting), "We aim to publish for ready reach by advisors new and important tools for them to better evaluate, and thus grow and improve, both the products and their practices."

When asked about this new committee and its exciting plans, ADISA's executive director, John Harrison, said, "It's going to be a great service to the industry and ultimately to society to improve these worthy investment products; I commend this committee for undertaking this important role." It appears the "plan for evaluating alts" that many have asked about is coming your way. ▲

1 — Initial guidance for this Gap due diligence initiative comes from a year long working group of due diligence officers, sponsors, broker dealers, and independent third party and education experts. Case studies on programs were prepared to find commonality of key considerations between programs that resulted in fraud or misconduct and those that have generally met expectations.



Behind Student Housing's Bullish Outlook for 2022 and Beyond

By Brian Nelson, *President & Co-Founder, Versity Investments*

As President, Mr. Nelson utilizes his extensive experience in student housing to create a more investor-centric firm that places greater emphasis on property performance, investor communication, and long-term relationships. Mr. Nelson worked as a product marketing manager for VERITAS and Symantec Software (NASDAQ:SYMC) where he specialized in marketing strategy, business development, and product positioning for several software products totaling well over $50 million in annual sales. Mr. Nelson holds Series 7 and 63 registrations and is affiliated with the Managing Broker-Dealer.

Prior to the pandemic, college enrollment had experienced an amazing run. Nearly four decades of steady, consistent growth. Higher learning campuses have become pillars of institutional stability, with almost no historical correlation to market or real estate cycles.

COVID was the first disruptor since the 1970s. School closures and online learning dealt enrollment its first significant decline since the early 1970s. (nCNBC.com/2022)

Yet the appeal and value of a college degree has never been stronger. Those with college degrees have repeatedly greater resilience to unemployment, especially during recessions. On average, college graduates will make more than $1.8 million above their counterparts over their career lifetime. (U.S. Bureau of Labor Statistics – April 7, 2021)

The ROI is compelling.Especially in an increasingly global and competitive workforce.

The appeal is bringing student back to major campuses around the country.

Data from Fall 2021 enrollment and new applications for Fall 2022 indicate the decline may have only been temporary. Currently, enrollment is even surpassing pre-pandemic levels at most major universities. (Forbes.com/2022/01/26)

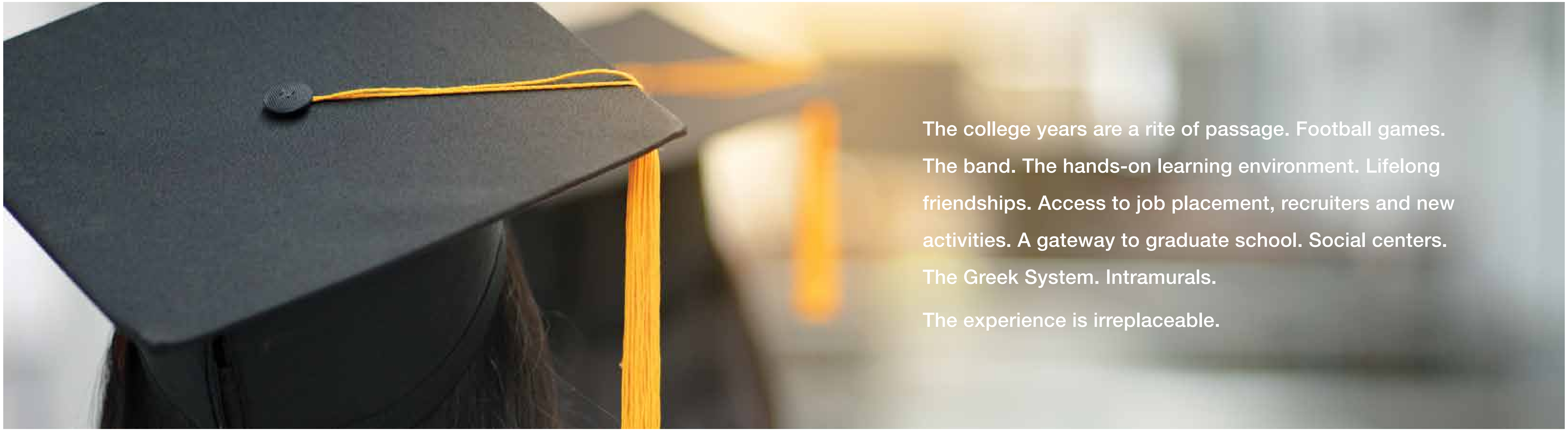
Investors are taking notice, especially grappling with the uncertainties of today's market. Prospects of war in Russia, rampant inflation, rising crime, supply chain concerns and volatility on Wall Street; these are all top-of-mind concerns for investors.

That's where the historical stability of century-old universities heading toward coming back to business-as-normal can be enticing. And student housing has the potential to be an excellent way for investors to capitalize.

After all, for non-commuter campuses, students will need a place to live. Preferably close to campus. Over the last decade, lease terms have become

2022 Full Cycle: Plaza on Broadway, University of Colorado – Boulder

Anticipated to close escrow in March 2022, Plaza on Broadway will be Versity's 10th full cycle property. Plaza epitomizes the ideal balance of benefits Versity targets with the right student housing property—stable occupancy, monthly income, favorable tax shelter and capital growth.



increasingly more renter friendly.

Currently, the standard is for 12-month contracts, by-the-bed leasing and parental guarantees (imagine having most of your economic tenants being homeowners with six-digit incomes hailing from various industries and regions. Well-diversified revenue source).

Yet investors have been hesitant with student housing since the pandemic. Nervous about school closures and the "amazon effect" that online learning could displace brick-and-mortar colleges.

While that sounds efficient and plausible, reality hits different.

Most parents of college-aged students can attest, students are tired of the quarantine. They do not want to get their degree online, confined to their childhood bedroom.

Frankly, Mom and Dad don't exactly want them home all-day, year-round either. They want their child learning life's lessons on their own. Launching their own lives and careers.

The college years are a rite of passage. Football games. The band. The hands-on learning environment. Lifelong friendships. Access to job placement, recruiters and new activities. A gateway to graduate school. Social centers. The Greek System. Intramurals.

The experience is irreplaceable.

This is precisely why student housing held fairly strong throughout the pandemic, despite school closures and lack of clarity surrounding re-openings.

Off-campus housing occupancy fell only 3% during the peak years of the pandemic. Dropping from the standard 92% collect occupancy to 89.1% nationwide. (YardiMatrix.com)

That appears to have been a temporary dip. Now with vaccine requirements pervasive throughout colleges, most schools welcomed students back in Fall 2021; and almost all schools are expected to be open by Fall 2022.

The students are anxious to get back.

Just last week, Forbes reported that college applications for Fall 2022 have already increased by 22% over the same time last time. That's over one million distinct new students.

Key drivers behind that growth, are first generation college students and international students. In fact, international student applications were up 31% year-over-year. Led by highly populated countries like China, India, Pakistan and Nigeria.

Both trends bode well for the potential future stability of college enrollment growth.

The impact is being felt already throughout the student housing category.

ACC, the largest publicly traded student housing REIT, has reported a fantastic turnaround across their portfolio. With occupancy jumping from 89% in Fall 2020 to 95.8% in Fall 2021. Accompanied by an unprecedented 3.3% rental rate growth.

Delivering double-digit, year-over-year NOI Growth. All record highs. An exciting harbinger for student housing across the board.

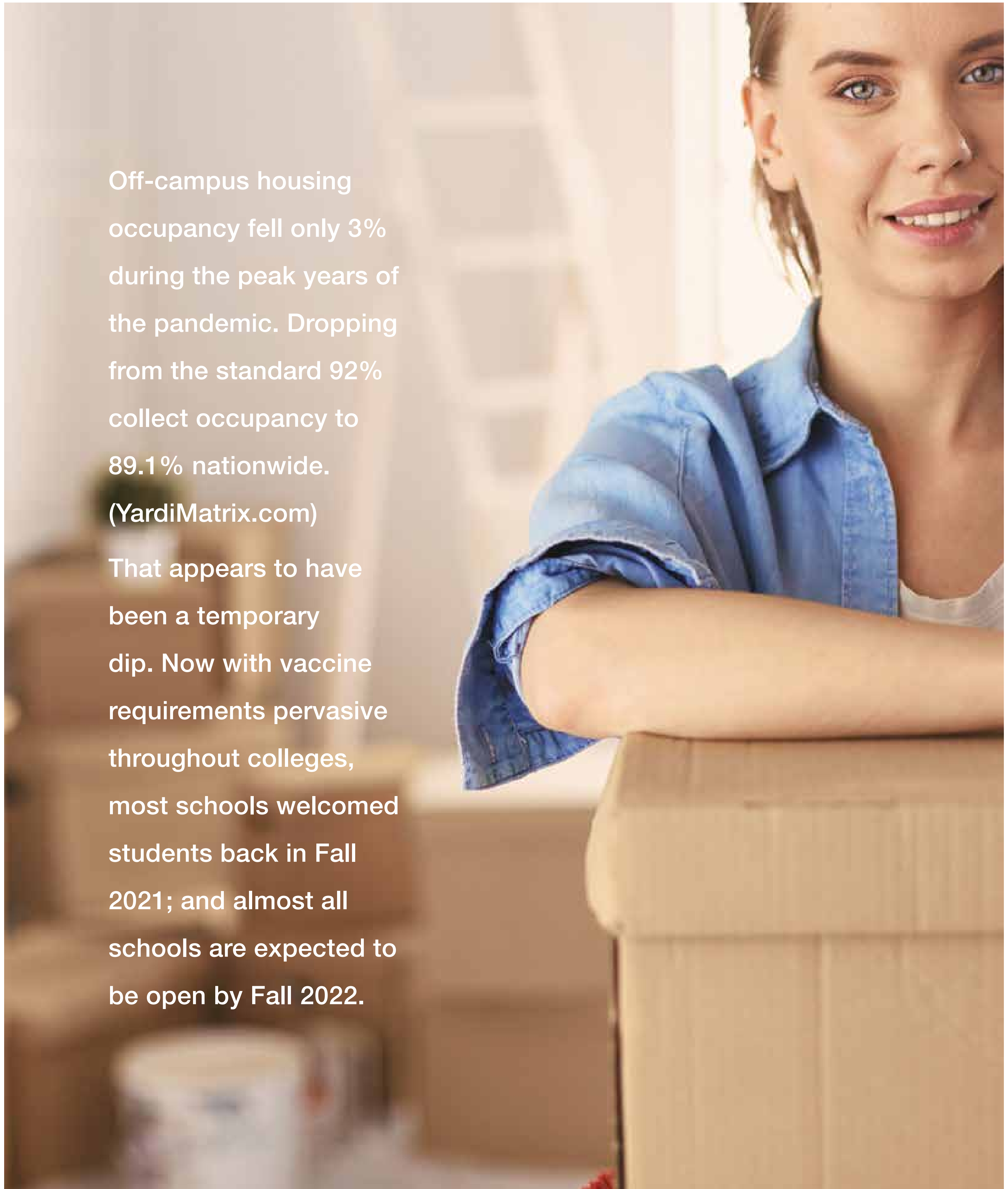
ACC CEO Bill Bayless commented that student housing was "experiencing the most substantial fundamental tailwinds we've seen in many years".

Market research firm Yardi Matrix echoed this resurgence.

Yardi's data of more than 200 properties across the US, mirrored ACC's, showing a leap from 89% occupancy in 2020 to over 94% in 2021.

With no signs of slowing. Yardi's fresh pre-leasing data for the upcoming Fall 2022 school year has been outpacing 2021's excellent performance by over 11%. And a 6% increase from pre-pandemic 2019.

At Versity Investments, we're experiencing the same bump across our 25 student housing communities. Fall 2022 pre-leasing has been our strongest to date.



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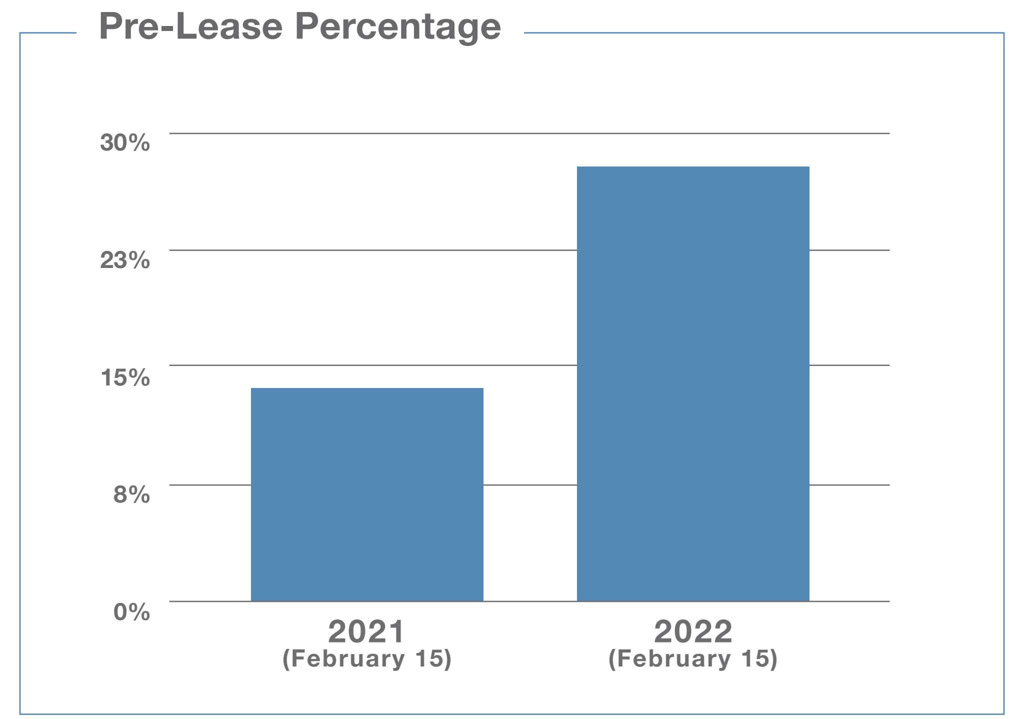


By mid-February, we are currently:

- Pre-leasing 15% ahead of same-store occupancies from last year
- Securing more than double the number of leases at this stage last year
- Increasing rental rates at an average of 7% year-over-year
- Outpacing collective market comparables by over 7%

As university enrollment starts returning—or even surpassing—pre-pandemic levels, what may be most compelling to investors is the favorable supply-demand dynamic.

Just as demand for off-campus housing is excelling, new supply has wanted. 2021 and 2022 will experience the fewest new student housing deliveries since 2009 and 2010. Approximately 30% decrease from the previous five-year stretch.

With inflation growth and labor shortages throughout the country, the costs for new construction are soaring. Especially for the higher end housing with bed-to-bath parity and pricey premium amenities.

The cost-justification for new developments is creating high barriers to entry; requiring at least 30% to 35% rent increases above today's top end rents.

Things may only get worse for new developments once the trillion-dollar infrastructure bill takes its toll consuming materials, resources and likely driving labor costs even higher.

That has the potential to create a sustainable competitive advantage for core, established properties that boast the same features and premium amenities—but at markedly lower price points.

With growing enrollments, rising rental rates, fantastic debt-coverage ratios, and highly favorable supply-demand dynamics, Versity believes core, stabilized student housing within walking distance to major universities, may be some of the biggest winners as we near a post-COVID economy. ▲

Real Estate Capital Raising Developments

By *Mick Law P.C.*

Mick Law P.C., based in Omaha, Nebraska, is a specialty firm comprised of full-time and of-counsel attorneys who each possess a concentrated area of expertise and in-depth knowledge. In addition to their law school credentials, the attorneys also have professional and educational credentials, including MBAs, LLMs, and securities industry licenses (inactive).

While providing a broad range of legal services to our valued clients, our firm focuses on two principal areas of practice; broker dealer and registered investment advisor representation and real estate finance.

As the U.S. economy gradually recovers from the clutches of COVID, it's important to note that certain real estate product structures are attracting retail and institutional based capital. This article summarizes these developments as they relate to IRC Sect. 1031 real estate products, qualified opportunity funds, and conservation oriented real estate.

Sect. 1031 Product Developments

Mountain Dell Consulting ("**Mountain Dell**") released its 2021 Year-End Report relating to the securitized IRC "1031" product market. In 2021, roughly $7.4 billion was raised by 42 sponsors that closed 265 programs. This result "more than doubled" the previous high-water mark in 2006, in which $3.65 billion was raised.

Leading the way for the 1031 market was Inland Private Capital Corp. (18%), which was followed by Ares Real Estate Exchange (i.e., Black Creek Group) (11%), Capital Square Realty Advisors (10%), Passco Companies (7%), Cantor Fitzgerald Investors (7%), and ExchangeRight Real Estate (7%). As was the case in respect to 2020, multifamily properties accounted for the highest percentage of 1031 capital raised ($3.621 billion, 49%), with retail ($0.98 billion, 13%), industrial ($1.327 billion, 18%), and self-storage ($0.49 billion, 7%) programs also reporting healthy levels of raised capital.

Senior housing, hospitality and energy were the sectors with the lowest capital raise totals (i.e., collectively under 3%). Notwithstanding the COVID headwinds that affected these sectors, market fundamentals now bode favorably for the energy sector of the 1031 product market, with oil prices expected to average about $80 bbl oil this year (Source: Raymond James), and with global oil consumption expected to return to pre-COVID levels (i.e., 100.0 million bbls oil per day). Also, it's worth mentioning that a new DST sponsor, Energy Related Properties ("**ERP**"), is entering the retail/RIA channels in 2022 and is about to launch its first DST. Based in Midland, Texas, ERP is a real estate investment and property management firm that specializes in acquiring and leasing warehouse properties to oil/gas goods and services companies. ERP has over 60 warehouse assets under management within the greater Midland/Odessa, Texas market (and our sponsor-level opinion is available for review upon request). The addition of ERP to the retail channel should help to bolster 1031 product sales on the energy side of the product market.

Certain other findings of note from Mountain Dell's 2021 Year-End report included the following:

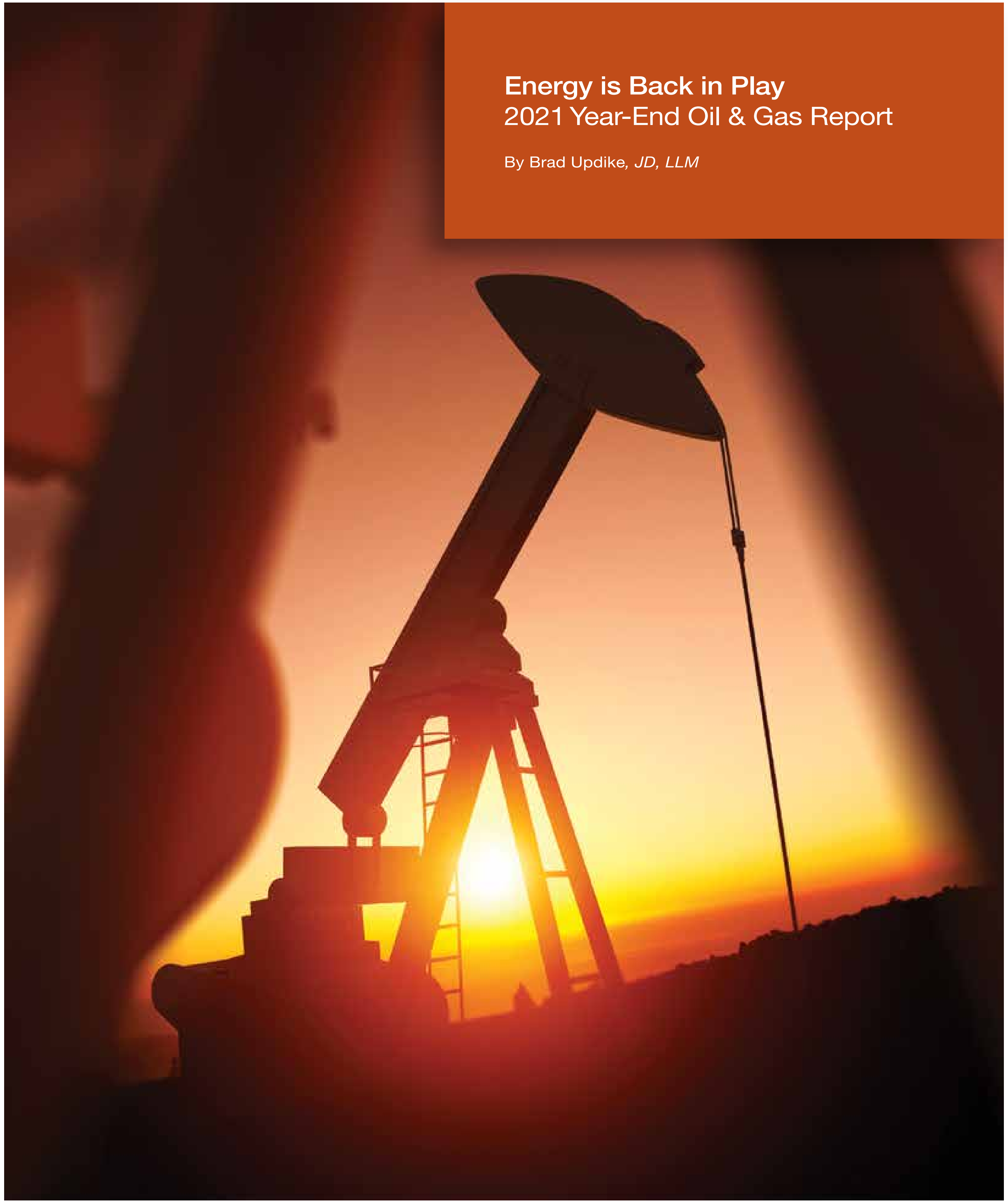
- As of December 31, 2021, there remained 61 open offerings continuing to seek $1.332 million of capital;
- Geographically, Texas, Florida, Georgia, Illinois, and North Carolina accounted for 186 of the 265 1031 programs (approx. 70%):
- While New York and California are the U.S. states with the highest populations, these states only accounted for 18 of the 265 1031 programs (approx. 7%);
- Offerings structured as DSTs: 247 (93%);
- Offerings structured as TICs or direct title: 18 (7%);
- Offerings registered as 506(b): 217 (82%);
- Offerings registered as 506(c): 48 (18%);
- Avg. year one cash-on-cash: 4.49%; and
- Avg. days on market: (107 days, with 69 days as the median).

On a related note, ADISA is updating its 1031product best practices to provide a DST-focused educational orientation. The older version of the best practices, TICA Alert 06-01, was published in 2006 to provide broker-dealers and RIAs with an educational resource that covered tenancy-in-common products in terms of their background, legal requirements, product structures, and securities requirements. Our firm is actively participating in the redrafting process, and we anticipate that the updated 1031 best practices will be available to ADISA's membership later in possibly Q1 2022 or Q2 2022.

Opportunity Zones Beyond 2022 —Are They Still in Play?

At 12:01 am January 1, 2022, the deadline passed for investors of Qualified Opportunity Funds ("**QOFs**") to achieve the 10% step-up in the cost basis of their investments. Notwithstanding, an Industry Report published by AI Insight in December 2021 suggests that there is a continuing pipeline of QOF products being offered by several QOF product sponsors. As of December 2021, AI Insight covered 16 QOFs with an aggregate target capital raise of $2.3 billion and an aggregate reported raise of $860 million. The most recent of the QOF products to hit the retail channel was Griffin Capital Qualified Opportunity Zone III, L.P. (Dec. 2021), which is seeking to raise $250 million. Specific projects and areas of focus include investments in northern California, Salt Lake City, Utah, St. Paul, Minnesota, Virginia Beach, Virginia, Daytona Beach, Florida, Charleston, South Carolina, North Carolina, Maryland, Pennsylvania, and Utah.

As the 10% basis step-up expired last December, some may have felt that the clock had run out for new investments in QOFs. However, opportunities still remain for those seeking exposure to quality real estate assets and projects that happen to be located in Qualified Opportunity Zones, while at the same time deferring payments of their capital gains taxes through December 31, 2026. In addition to the deferral of capital gains taxes, the ability for such investors to receive a fair market value basis after holding the investment for ten years remains in-tact. Notwithstanding the tax benefits that remain, **we continue to believe that, at the end of the day, its all about the asset and its ability to deliver value to the fund investors.** As was the case in 2018-2021, opportunity zones can make a good deal great, ***but a bad deal is a bad deal from an underwriting perspective.*** ▲



Energy is Back in Play
2021 Year-End Oil & Gas Report

By Brad Updike, *JD, LLM*

What was forecast by Wall Street, the U.S. press, and (quite frankly) the Biden Administration faithful as doom, disaster and the end of the oil and gas business 22 months ago, has turned to tentative optimism within the financial services sector, where public and private companies vie for retail and institutional capital. As was the case prior to the emergence of the COVID Pandemic, however, it's been a wild ride in 2020 and 2021 for the energy sector.

Energy Sector Capital Summary

In 2021, we covered ten sponsor companies, nine of which operate within the upstream ("E&P") oil/gas sector, and one of which provides a "back-of-the-grid" power solution to companies that require access to electricity on a 24-7 basis. These companies raised $621 million within the retail investment channel last year.

Of the $621 million, the nine E&P product sponsors raised $555.974 million within 15 separate retail syndicated programs. This represented a 103.78% year-over-year increase in funding from what was reported by these E&P sponsors in 2020 (i.e., $273 million). This also represented the highest capital raise year from the E&P sponsor group that we cover since 2014.

Leading the way in terms of fundraising was U.S. Energy Development Corp. ("U.S. Energy"), at $190 million, which was followed by MDS Energy ("MDS"), at $147 million, and Mewbourne Development Corporation ("Mewbourne"), at $119.80 million. In terms of funding growth, eight of the nine sponsors from the E&P group reported significant year-over-year gains in fundraising, which was a turn-around from 2020, in which only two of the nine sponsors reported growth. A chart of the fundraising totals of the E&P sponsors we covered is provided on the following page *(see page 20.)*

Five Internal Revenue Code ("**IRC**") Section 1031 ("**§1031**") programs were wholly or partially funded in 2021 by Resource Royalty and Montego Minerals. Overall, §1031 energy capital increased from what was reported in 2020 ($18 MM). While the assets we reviewed within the §1031 programs have been positioned to generate economic returns under conservative commodities prices, COVID-19 Pandemic developments in 2020, coupled with a severe level of commodities pricing volatility, slowed the momentum that these programs had previously built up in 2018 and

Capital Raised

Company	Strategy	2021 Raise	2020 Raise	2019 Raise
Mewbourne	*Drilling*-Horizontal Wells in the Permian Basin, Texas Panhandle and Anadarko Basin	$19.80 MM	$55.31 MM	$99.31 MM
MDS	*Drilling*-Horizontal Wells in the Marcellus Shale Play	$146.919 MM	$60.0 MM	$68.0 MM
APX	*Drilling*-Mississippi Oil Targets in the Illinois Basin	$19.0 MM	$12.0 MM	$21.0 MM
STL	*Drilling*-Marcellus Shale of Eastern Pennsylvania	$29.5 MM	$17.3 MM	$9.0 MM
U.S. Energy	*Drilling*-Permian Basin, Powder River Basin and Eagle Ford Shale Play; the QOF is an Opportunity Fund Seeking Working Interests and Other Upstream Assets	$145.0 MM drilling; and $45.0 MM QOF program	$64.0 MM drilling; and $20.0 MM QOF program	$99.0 MM
Waveland	*Opportunity Fund* Targeting Minerals and Non-Operated Working Interests in the Bakken Shale	$13.255 MM	$22.0 MM	$18.6 MM
Resource Royalty	*1031 Program* Acquiring Minerals and Royalties in STACK Play of Oklahoma	$11.067 MM	$5.373 MM	$19.15 MM
Montego Minerals	*1031 Programs* Acquiring Minerals and Royalties in the Permian Basin and East Texas	$19.730 MM	$12.5 MM	$32.0 MM
JHO	*Drilling*-Oil Producing Zones in Tennessee	$6.704 MM	$4.35 MM	Did not raise capital

2021 E&P Capital by Strategy

Total Capital $555.974,460
Drilling $466,922,247 (84%)
Opportunity Funds .... $58,255,045 (10%) (includes a QOZ fund)
Minerals/Royalties .... $30,797,168 (6%) (98% structured as direct interest)

2019. Based upon current oil/gas market fundamentals, we believe this segment can achieve additional growth in 2022.

Representing the other side of the energy value chain, e2comply, LLC ("**e2C**") entered the retail broker-dealer channel in late 2020 and raised $64,846,057 from accredited investors in 2021 pursuant to its senior secured bond offering. The net proceeds from this offering are expected to be used by e2C to fund its manufacturing of back-up power systems that enable certain companies that require power on a 24-7 basis (e.g., hospitals, utilities, bakeries) to function on a continuous basis, while also allowing such companies to run the back-up system at times when it is cost-effective to do so (which helps the consumer businesses to save money on their monthly power costs). Driving the appeal of e2C's offering, in part, was the Texas power crisis of 2021, which was caused by a winter storm that caused the state's electric grid operator to lose control of the power supply, leaving millions of people and many businesses without access to electricity.

We note that the size of the E&P sponsor group that we cover has been stable over the past couple of years (e.g., eight to ten sponsors in 2017-2021), with drilling programs outpacing royalties and opportunistic funds in terms of fundraising. The fundraising of this sponsor group has been choppy since 2017 ($330 MM 2017, $401 MM 2018, $369 MM 2019, $273 MM 2020, and $556 MM in 2021). The choppiness has been caused by severe market volatility, coupled with the fact that the sector continues to seek the reestablishment of investor trust that was lost as a result of performance failures by several companies that no longer raise capital in the retail channel. Based upon current market fundamentals, however, the E&P sponsor group appears to be well positioned to achieve a better level of performance than what was the case years ago.

What's Driving the Market Today?

The following market information was derived from multiple informational sources:

Oil

As of February 8, 2022, the WTI spot price for oil was $89.11 per barrel ("**bbl**") of oil, with the Brent spot price being $90.42 per bbl. The Energy Information Administration ("**EIA**") forecasts WTI spot prices to average $79 per bbl in 2022, **but with the EIA's estimate for 2023 dropping to $64 per bbl.** Within its Short-Term Energy Outlook ("**STEO**") published on February 8, 2022, the EIA acknowledged the present tightness of global oil inventories, **while also stating its belief that downward price pressure will emerge in the middle months of 2022 as oil production from the U.S. and the OPEC + countries outpace the emerging growth in world oil consumption.**

The EIA estimates that 99.0 million bbls of oil per day were consumed globally in January 2022, which represented an increase of 6.6 million bbls per day from January 2021. The EIA also forecasts that global consumption of oil will average 100.6 million bbls per day for all of 2022, which is up 3.5 million bbls per day from 2021 and exceeds the 2019 average of 100.3 million bbls per day. The EIA forecasts that global consumption of oil will increase by 1.9 million bbls per day in 2023 (which arguably presents a *"counter-argument"* to its $64 bbl price forecast for 2023 if U.S. and OPEC + oil production falls short of the growth expectations for next year).

February 8, 2022

NYMEX Contract Month	*Contract Price*
Mar. 2022	$88.88/bbl
Sept. 2022	$81.93/bbl
Mar. 2023	$77.50/bbl
Mar. 2024	$72.83/bbl
Mar. 2025	$69.04/bbl

The EIA reports in its STEO that U.S. oil production reached 11.8 million bbls a day in November, the most in any month since April 2020. The EIA expects that that oil production will rise to an average of 12.0 million bbls per day in 2022 and 12.6 million bbls per day in 2023, which would be record-high production on an annual-average basis. **Again, this rising trend in U.S. oil production is the supporting thesis for the EIA's belief that oil prices will eventually fall back to a $60-$70 per bbl level next year**.

We note that the EIA's pricing sentiment contrasts with the oil forecasts published recently by Raymond James and Goldman Sachs, which have forecast WTI oil prices to remain at a high level (i.e., $80 bbl plus) next year. We also note that the EIA's pricing sentiment is lower in comparison to the NYMEX futures prices published on February 8, 2022, which were in the $80s per bbl through 2022 and the $70s per bbl in 2023.

In his market podcast shown on February 5, 2022, Dan Steffens, President of the Energy Prospectus Group, published a rather bullish sentiment for oil remaining at $80 bbl for this year and 2023. In support of his viewpoint, Mr. Steffens stated that the *"global oil market is tight and is probably getting tighter"* in the future. Some other points mentioned in support of his optimism include the following:

- COVID is losing its grip on the U.S. and world economies, and travel restrictions are being lifted in many countries;
- OPEC + is not keeping pace with its published quota increases (with the shortfall being 790,000 bbls per day in Dec. 2021);
- Petroleum inventories are now at an unhealthy level of 28 days of consumption (with 30 days being the safety threshold in Mr. Steffen's viewpoint); and
- The world is using more oil today than it produces (with the spread being 1.5 million bbls per day through all of 2021).

Mr. Steffen's optimism is shared by Raymond James, which published a pricing expectation of $70 bbl to $80 bbl in December 2021, and with its year-end 2022 expectation of $80 bbl expected to remain through 2023. According to Raymond James' pricing analysts, oil prices "need to move meaningfully higher" to incentivize supply growth to reach a balanced oil market in 2023. **Again, we note that the severity of production increases in the U.S. and worldwide remains the wild card with respect to market pricing for late 2022 and 2023.**

Natural Gas

In January, the natural gas spot price at Henry Hub averaged $4.38 per mcf, up from the December average of $3.76 per mcf. Higher prices in January were a result of colder-than-normal weather in parts of the country, particularly the Northeast where demand increased for natural gas used for space heating and for power generation. Colder-than-normal temperatures in January 2022 resulted in U.S. natural gas inventories falling below the five-year U.S. average to end the month at 2.3 trillion cubic feet ("**TCF**"). The EIA expects natural gas inventories to fall by about 730 billion cubic feet ("**Bcf**") for the rest of the 2022 withdrawal season, ending March just below 1.6 Tcf (i.e., 8% less than the 2017–2021 average for that time of year).

In addition to colder weather patterns in the Northeast, U.S. liquid natural gas exports ("**LNG**") continue to grow at a significant clip. The EIA reports that U.S. LNG exports averaged 11.2 Bcf per day in January 2022, up from 10.4 Bcf per day in 4Q 2021. This export growth is being supported by large price differences between the Henry Hub price in the U.S. and spot prices in Europe and Asia. On this point, inventories in Europe remain much lower than their five-year averages and are contributing to strong demand for LNG imports. The EIA anticipates high levels of LNG exports to continue into 2022.

The tightness in U.S. natural gas inventories has presented opportunities for natural gas producers to lock in healthy natural gas prices at levels above the prices that have been observed over the past five years. This observation is supported by the following futures prices.

Strip February 8, 2022

NYMEX Contract Month	*Contract Price*
Mar. 2022	$4.33/mcf
Apr. 2022	$4.27/mcf
May 2022	$4.32/mcf
June 2022	$4.36/mcf
Jan. 2023	$4.78/mcf
Jan. 2024	$3.91/mcf

Natural Gas Price Average
Past five years

2017	$2.99/mcf
2018	$3.15/mcf
2019	$2.58/mcf
2020	$2.03/mcf
2022	$3.89/mcf

What's Going On in the Field?

In January 2002, U.S. oil production was 11.5 million bbls per day, which was 0.30 million bbls per day less than what was reported in December 2021. Despite the slight month-to-month reduction in production, oil production has rebounded from the COVID affected levels reported throughout 2020 (i.e., 10.78 million bbls per day Apr. through Dec. 2020) and all of 2021 (i.e., 11.17 million bbls per day). This increase in U.S. oil production is driven by improved market fundamentals that have driven oil prices higher over the past six months. This increase in oil production is further reflected by a higher U.S. rig count, which has increased from 392 rigs running in February 2021 to 613 rigs running currently (which, although is short of the 768 rigs running pre-Covid, nonetheless represents a rebound in drilling over the past year).

Basin	2/4/2022 Rig Count	Year Ago Rig Count	Jan. 2020 Pre-COVID
Arkoma/Woodford Region	26	9	23
Barnett Shale	2	1	2
DJ-Niobara	12	5	20
Eagle Ford Shale	50	28	67
Granite Wash	5	0	1
East Texas & Haynesville Shale	54	47	49
Marcellus Shale	33	30	40
Mississippi Play	1	0	2
Permian Basin	294	198	403
Utica Shale	12	7	11
Williston Basin/Bakken	31	12	52

Baker Hughes, 2/4/22, 3/6/20

On a positive note, oil drilling has increased to various levels within all eleven major oil/gas basins covered by Baker Hughes' rig count data. The major U.S. basins that have experienced the most growth in terms of increased rig counts from a year ago include the Williston Basin/Bakken Shale (up 158%), Eagle Ford Shale (up 78%), and Permian Basin (48%). Stronger market fundamentals on the natural gas side have also help to improve drilling activities in the gas producing Arkoma/Woodford Region (up 188%), Utica Shale (up 71%), and Marcellus Shale Play (up 25%).

Motivation to Drill—What are the Break-Evens?

Despite favorable market fundamentals for oil pricing in 2022, a stable oil market commands a world supply/demand balance. Notwithstanding, today's favorable oil market fundamentals present opportunities for U.S. E&P companies to recapture their profits lost during COVID by increasing their drilling and production. An illustration "suggesting" how much profit can potentially be recaptured by oil/gas producers is shown within the table *(see page 25)* (with break-evens reported on a "**per bbl**" basis.)

Based upon the findings of an oil/gas industry survey published by the Federal Reserve Bank of Dallas (Feb. 3, 2022), many E&P companies are, in fact, gearing up to increase their drilling and production over the next 12 months. Within a survey of several executives from 131 oil/gas drilling and field service companies, the average forecasted oil price for year-end 2022 was $75 per bbl, with the group of executives predicting natural gas to end the year at $4.06 per mcf. Coincidentally, and based upon their viewpoints about oil/gas prices, 78% of the executives from the 88 surveyed drilling companies stated that their companies intend to increase their oil/gas production over the next 12 months, with only 28% stating that they plan to either maintain or decrease their drilling. Of the 88 surveyed drilling company executives, 64% also stated that their "primary strategic goal" for 2022 is to increase or at least maintain their current oil/gas production levels. *While also acknowledging that there are forces that might serve to temper the E&P sector's motivation to drill (e.g., the ESG movement and the Biden administration's disdain for the sector),* ***money talks*** *(suggesting that the EIA's sentiment about 2023 oil pricing is factually supported).*

Play	Avg. Break Even Drilling	Avg. Price to Recover Op.
Permian-Midland	$46	$27
Permian-Delaware	$49	$26
Permian-Other	$53	$33
Eagle Ford	$46	$17
Other U.S. Shale	$58	$33
Other U.S. Non-Shale	$53	$34

Federal Reserve Bank of Dallas Survey Report Updated Feb. 3, 2022

Market Volatility—Revisiting Where We Have Been

It goes without saying that the past 15 years have been a roller coaster ride for oil/gas prices. By way of example, we've seen oil as high as $140 per bbl (July 2008) and as low as negative $37 per bbl (May 2020). While bull markets are a welcomed development for those that guide investors seeking to put money into the E&P sector, history teaches us that we need to be disciplined in terms of our return expectations. The cycles of the past several years can be summarized as follows:

- A floundering real estate market in 2007-2008 due to the sub-prime loan market collapse motivated many in the financial services sector to move money from real estate to crude, which drove oil prices to $140 bbl in July 2008. However, the Great Recession that hit in late 2008 dropped oil back to $30 bbl before a recovery to $60-80 bbl set in in late 2009/2010.
- The shale boom that took U.S. oil production from under four million bbls oil per day in late 2008 to more than nine million bbls per day in 2014 over-supplied the global market. Saudi Arabia's failed attempt to regain market share in 2014 caused the oil price to decline from over $100 per bbl to under $30 per bbl. The double bottom in early 2016 appeared to be the end of this cycle, and oil moved back over $70 per bbl in the summer of 2018.
- The U.S. vs. China trade war took oil back under $50 per bbl. The signing of phase one of the trade agreement had oil back on track to the $70s. In the first week of 2020, oil was trading over $62 per bbl, and everyone thought the price was heading higher.
- Then came COVID and the oil crash in April 2020. From April through the first week of May, we saw prices settle below $20 bbl and even dip below $0 for a day.
- Finally, COVID began to loosen its grip on world economies in 2021, which caused the world's appetite for crude to resume with a flurry. This caused worldwide oil consumption to spike from 91 million bbls day in 2020 to 97 million bbls day in 2021. This has resulted in oil prices moving back to an $80-90 bbl level in January 2022.

It goes without saying that the past 15 years have been a roller coaster ride for oil/gas prices. By way of example, we've seen oil as high as $140 per bbl (July 2008) and as low as negative $37 per bbl (May 2020). While bull markets are a welcomed development for those that guide investors seeking to put money into the E&P sector, history teaches us that we need to be disciplined in terms of our return expectations.

Despite the past rhetoric in the press, the White House and on Wall Street about renewable energy displacing crude as the world's chief source of energy, the world's appetite for crude remains steadfast. **That said, we MUST not forget the inherent volatility risks associated with oil/gas commodities, and how that has played to the chagrin of many public and private E&P companies over the past several years that over borrowed and eventually collapsed.**

Conclusion

Despite the recent and most welcomed optimism about the prospects of oil/gas, we must remain steadfast in our underwriting of oil/gas companies, because no one is immune to the next cycle. For this reason, we must pay attention to break even prices and the break points in which an E&P sponsor's pro forma becomes unprofitable. At a sponsor due diligence level, we must pay attention to a sponsor's patterns of success **in good times and bad,** as well as their short-term liquidity, leverage use, and overall dependance upon the retail channel's funding for survival. As cap. ex. and lease operating costs are already beginning to increase as a result of improved pricing fundamentals, we need to stay the course in the quest for sponsors and products that have prospects for success under less fortunate circumstances than what we are seeing today.

On the renewable energy front, we've had the opportunity in the past couple of years to review programs that were structured to provide income tax benefits from investment tax credits and accelerated equipment cost recovery deductions (e.g., bonus depreciation per IRC 179). Due to the passive nature of the equipment deductions, however; these programs have often been structured for ultra-high net worth clients with significant passive income. Notwithstanding the largely questionable alternative energy offerings we have reviewed in the past, we welcome the opportunity to review and underwrite alternative energy sponsors (such as e2C) to the retail channel that present program structures that appeal to a broader percentage of the retail investment sector.

As we have written in our past year-end reports, stay committed to cautious due diligence. As history has taught us, the next cycle will come—we just don't know when. ▲

ADISA Board of Directors

At its first meeting of the year, the new ADISA Board, elected by the membership in late 2021, selected its 2022 officers. Michael Underhill of Capital Innovations was selected president-elect (for the 2023 presidency); Angela Barbera of NexPoint Securities as vice president; Catherine Bowman of The Bowman Law Firm as secretary; and Mark Kosanke of Concorde Investment Services as treasurer. Matthew Malone of Lonsdale Investment Technology serves as immediate past president. Furthermore, Sylvia Kwan, Chief Investment Officer at Ellevest, was also elected by the Board to serve as a director for a one-year term.

Cooke said, "The ADISA board enjoys a wealth of talent from throughout the alternative investment space who have a deep understanding of the opportunities and challenges that face our industry. I am honored to serve with them and look forward to a busy year marked by enthusiasm and initiatives that will help us all continue to thrive as we work, grow and empower the alts industry."

The other ADISA 2022 Board of Directors are: Brandon Balkman, Orchard Securities; Craig Covington, DAI Securities; John Grady, ABR Dynamic Funds; Matthew Iak, U.S. Energy Development Corporation; Karlton Kleis, Arete Wealth Management; Greg Mausz, Preferred Capital Securities; Jade Miller, Bourne Financial Group; Ann Moore, International Assets Advisory; David Pittman, Strategic Blueprint; Jeff Shafer, CommonGood Capital; Brad Updike, Mick Law; and Dallas Whitaker, Carter Funds. Darryl Steinhause of DLA Piper also serves as a non-voting, volunteer legal counsel and Thomas Voekler of Kaplan Voekler Cunningham & Frank provides volunteer hospitality legal counsel. ▲

ADISA & *Real Assets Adviser* Partner to Host Year-Long Webinar Series

ADISA has partnered with *Real Assets Adviser* to produce a year-long webinar series, featuring industry hot topics.

In January we featured a 1031 End-of-Year Report, with Taylor Garret, Orchard Securities, presenting, and ADISA Executive Director John Harrison giving a 1031 tax and budget deadline update. In February, Alan Lincoln, Mick Law; Kevin Shields, Griffin Capital Company; and Sean Raft, Urban Catalyst, presented current trends and best practices on opportunity zones. Other topics in the pipeline this year include: infrastructure, multi-family, private equity, single family rentals/build to rent, industrial, student housing, senior living, among others. ▲

ADISA Launches State Regulator Education

On Monday, Jan. 24, 2022, ADISA members were invited to provide educational presentations regarding the alternative investment industry to delegations from around the Southeast at the Alabama Securities Commission office in Montgomery, where director Joe Borg was instrumental in rolling out the red carpet. Representing ADISA were Greg Mausz, Preferred Capital Securities; John Grady, ABR Dynamic Funds; Kirk Montgomery, Practus; and ADISA Executive Director John Harrison. Approximately two dozen securities regulators from several states (AL, AR, GA, KY, MS, SC, and TN) attended the event. In addition to the nearly three-hour comprehensive briefing on alts, there was time for discussion and questions from the regulators that provided a valuable opportunity for ADISA to effectively explain the structure and purpose of the various investment products that were discussed. Regulators were interested to learn about the products themselves and in regards to additional sourced information on the industry, such as BlueVault, The DI Wire, Robert A. Stanger & Co., Mountain Dell Consulting, AI Insight, etc.). There were also registered investment advisor (RIA) and independent broker-dealer observers present who were able to provide further insight to help the regulators understand the best uses of particular alt classes. Given the success of the event, several others are being planned for other regions soon. ▲

ADISA 2022 Spring Conference

ADISA's Spring Conference is quickly approaching – April 4-6, at the Rosen Shingle Creek in Orlando, Florida. Make your plans to attend the leading conference for alternative investments, which will offer unprecedented educational and networking opportunities.

Educational tracks include:

- Broker-Dealer
- RIA
- Ethics & Inclusion
- Emerging Products
- Legal Sessions
- ESG & Impact Investing
- Marketing & Technology
- Operations & Technology
- Public Programs
- Private Programs

There is still time to register!

Broker-Dealers, RIAs and Family Offices receive complimentary registration and two hotel room nights—while rooms still last. IARs/Registered Representatives receive a discounted registration rate of $120, with one hotel room night—while rooms still last.

Sponsor Registration Rates

Member: $980 (with event exhibit/sponsorship); $1,560 (without event exhibit/sponsorship) / Non-member: $2,996

Affiliate Registration Rates

Member: $960 (with event exhibit/sponsorship); $1,580 (without event exhibit/sponsorship) / Non-member: $2,998

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Save the Dates

2022 ADISA AI Research & Due Diligence Forum

JULY 19-20
New York Hilton Midtown

2022 ADISA Annual Conference & Trade Show

OCTOBER 10-12
The Cosmopolitan of Las Vegas

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