KINGSBRIDGE
ALTERNATIVE STRATEGIES FUND

Home Equity Contracts

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KINGSBRIDGE
ALTERNATIVE STRATEGIES FUND

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Home Equity Contracts

Investment Summary

- The US Residential Real Estate Market is ~$32 Trillion
  - There is a well established DEBT (Mortgage) market ~$12 Trillion
  - There is now innovative Non Debt financing available to home equity rich home owners

$31.8 TRILLION
US Residential Real Estate Market 2017

Home Equity Contracts provide liquidity to "Home Equity Rich" home owners

- We invest at a discount to the fair market value of the home, which protects our downside
- We receive an accelerated upside participation in any potential home price appreciation

Alignment of the home owner & Investor

- Home Equity Contracts align the interests of both the home owner and the investor

  If the home owner wins, the investor wins

  if the home price declines both parties participate in the downside

The Economics of the Opportunity

There is a demand for liquidity from equity rich home owners

- For ~70% of U.S. home owners, home equity is their largest asset, and home equity is greater than any investment or retirement savings
- Moving or adding additional debt financing is not always an available or desirable option for many home owners
- In the past, there has only been three ways for home owners to access their home equity
  - Sell the home
  - Mortgage cash out refinance
  - Home equity cash out or Home Equity Line of Credit (HELOC)
- These previous options are costly, time consuming and in some cases no longer available due to more stringent borrowing standards since the financial crisis

Home Equity: the difference between the value of the home and mortgage debt

Home equity has increased from $6 trillion in 2011, to $15.7 trillion at the end of 2017

$9.7 Trillion

Home equity has increased $9.7 trillion since 2011

The Genesis of Home Equity Contracts

The Opportunity → **Tech Entrepreneurs** → Consumer & Lending Data → Home Equity Contracts

Home owners have traditionally had **only debt financing** to access home equity. Now there is **non-debt financing available**

- Home Equity has increased to $9.7 trillion since 2011
- HELOC & cash out refinance loans have reached a 7 year low

“America is house rich, cash poor”

Formerly Employed at:

SoFi, zipcar, VISA, intuit, Zillow, McKinsey&Company, facebook, LendingClub

Venture Backed By:

- Andreesen Horowitz
- Bloomberg Beta
- General Catalyst
- Greylock Partners
- JP Morgan Chase
- Ribbit Capital
- G20 Ventures

Consumer & Lending Data

- Home owner behavior
- Economic data
- Real Estate historical sales & trends
- Foreclosures
- FICO scores
- Demographics
- Lending

Home Equity Contracts (HECs): are an agreement between a home owner and an investor, in which the home owner receives cash, and the investor receives an equity like participation contract in the home

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Home Owner

- Continues to own the majority of the home equity in their home & continues to live in and maintain the home
- Agrees to settle the contract before the expiration of the contract term
- The home owner can terminate the contract at a time of their choosing, before the expiration of the contract
- **The home owners continued mortgage payments result in de-risking the investor**

Investor

- The investor is paid in accordance with the terms of the contract, before or in conjunction with the home owner selling or financing the house
- The investor receives contractual protections and an accelerated participation in any future home price appreciation
- **Contractual protections include:**
  - **Downside protection from short-term fluctuations in home prices**
  - **Lien that is perfected by a deed of trust**

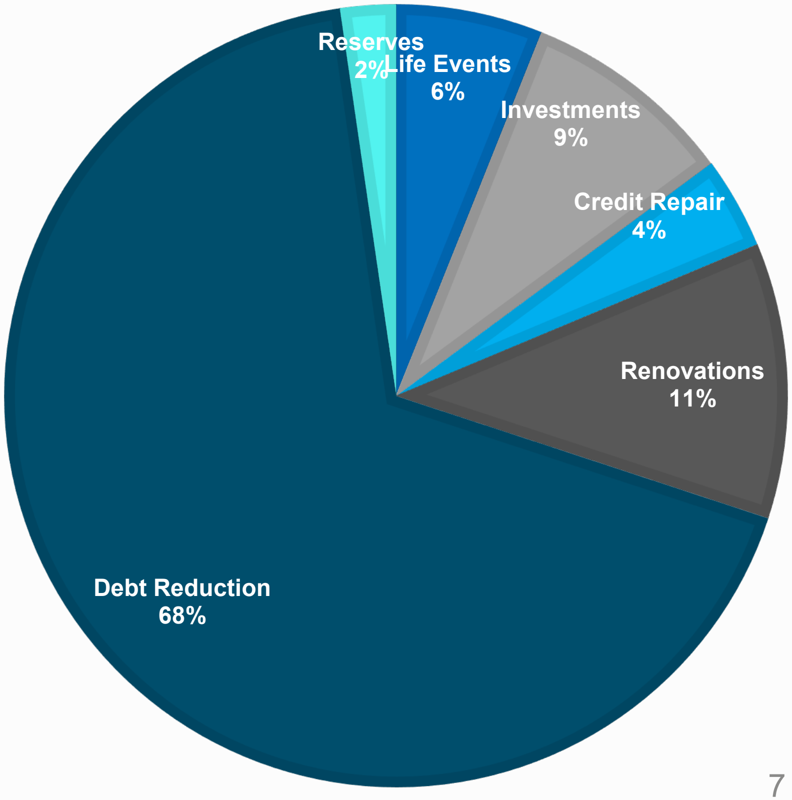
Demand Leads to Innovation

Home Equity Contracts (HECs)

Home equity contracts (HECs): A non debt financial solution for equity rich home owners

Home Equity Contracts (HECs) provide access to liquidity that solve real life problems for American home owners

- Life Events:
  - Divorce, medical expenses, education
- Investments, business start up
- Credit Repair
- Renovations
- Mortgage debt reduction to improve cash flow
- Reserves & lifestyle funding



Home Owners with significant equity seek non-debt solutions for many reasons. Adding additional debt often increases the home owner's financial risk, and strains cash flow. Non-debt home equity financing provides liquidity without the risk and cash flow strain of debt.

Home Equity Contract
Originators & Underwriting

Origination

The originators identify homes & home owners as potential HEC candidates, utilizing powerful analytical data

- The originators underwrite the home, using robust standards in addition to criteria imposed by investor/contract purchaser, which allows for risk mitigation

POINT
hometap
PATCH HOMES
UNISON
BARASTONE

Underwriting Origination

Home → **Home Owner** → **Contract**

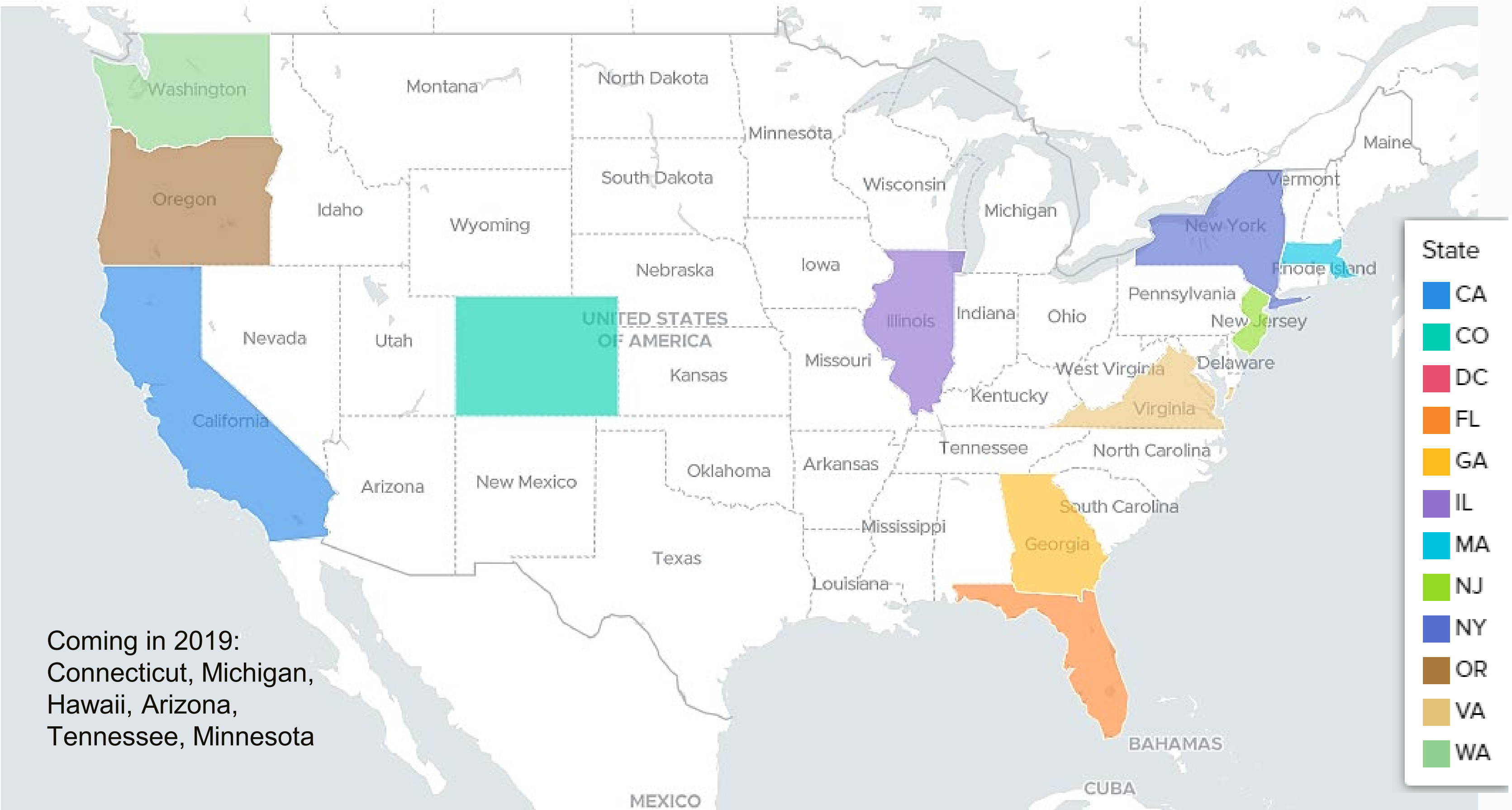
Home
- Geographic & economic factors
- Local wage growth
- Sale history of the home
- Potential for home price appreciation
- Appraisal value
- Occupancy
- Stress test of home price during financial crisis

Home Owner
- Home owner equity “skin in the game”
- Use of proceeds
- Expected timeline
- Lien position
- Debt to income ratio
- Cash reserves
- Standard mortgage underwriting metrics (employment, income, assets, liabilities)

Contract
- Investment percentage
- Risk Adjustment percentage
- Maximum IRR

Where are Home Equity Contracts Located?

Portfolio Detail (Continued) – Home Equity Contracts’ Location – Portfolio Exposure



Coming in 2019:
Connecticut, Michigan,
Hawaii, Arizona,
Tennessee, Minnesota

Example of a Home Equity Contract

Appraised Home Value

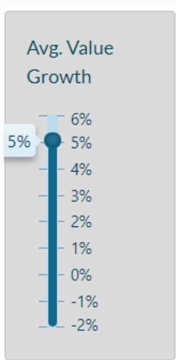
$300,000 $1,650,000 $3,000,000

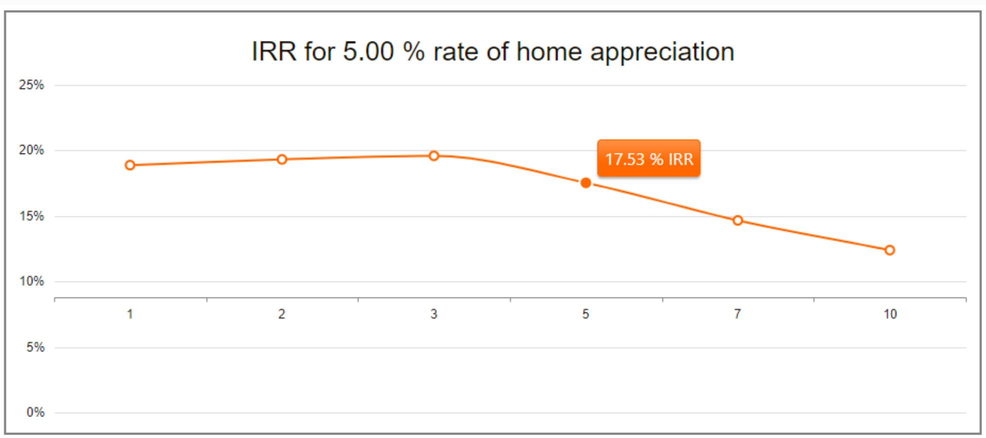
$900,000.00

Contract Inputs

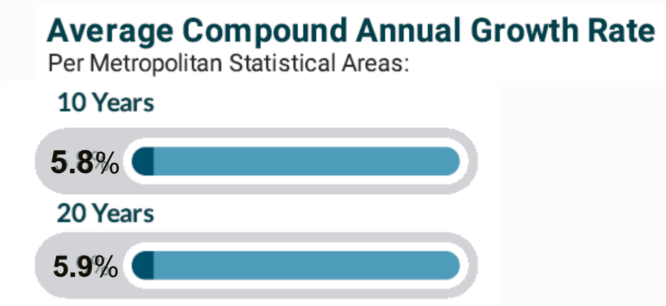
Risk Adjustment	19.00 %
Risk Adjusted Home Value	$ 729,000.00
Mortgage Debt	$ 450,000.00
Contract Max Gross IRR	21.00 %
Home Equity Contract Amount	$ 108,000.00
Investor Participation % of home appreciation	39.00 %

- ***Risk Adjusted Value $729,000***
  - ***Difference = $171,000***
- ***Contract Amount is 12% of Appraised Value***
- ***39% of $171,000 = $43,200***





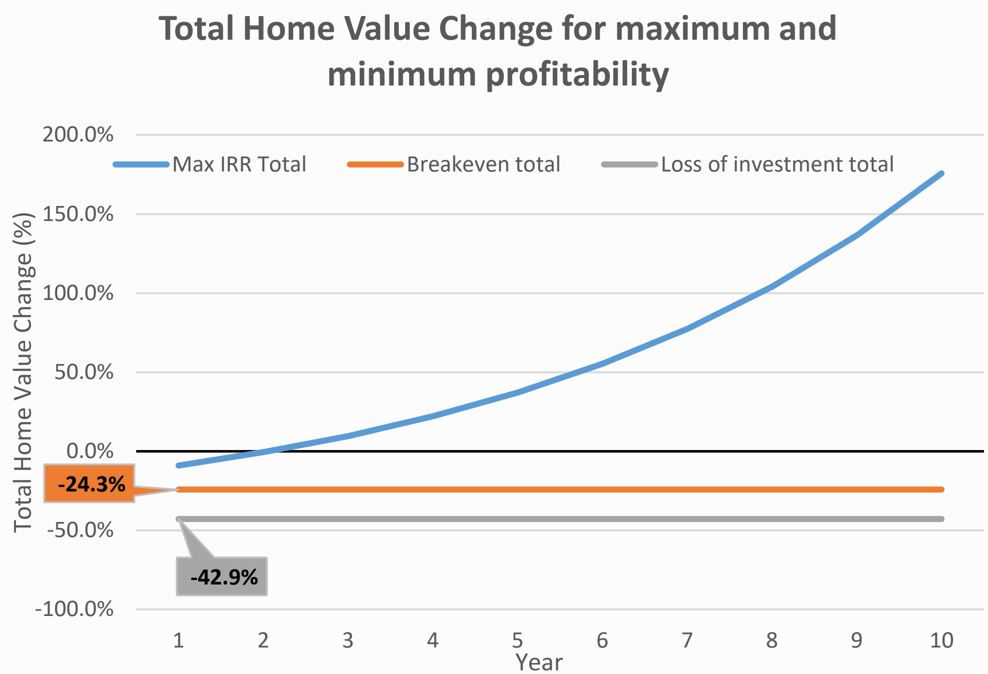
Home Equity Contract Range of Outcomes



Average Compound Annual Growth Rate for Home Prices as of 1/31/2019 in sample MSAs located in CA, CO, WA, OR, MA, NJ, **(may not be indicative of future home price appreciation)*

*** Loss of investment calculation is dependent on the amount of any senior liens on the home, this example uses senior lien debt loan to value (LTV) of 47.56%*

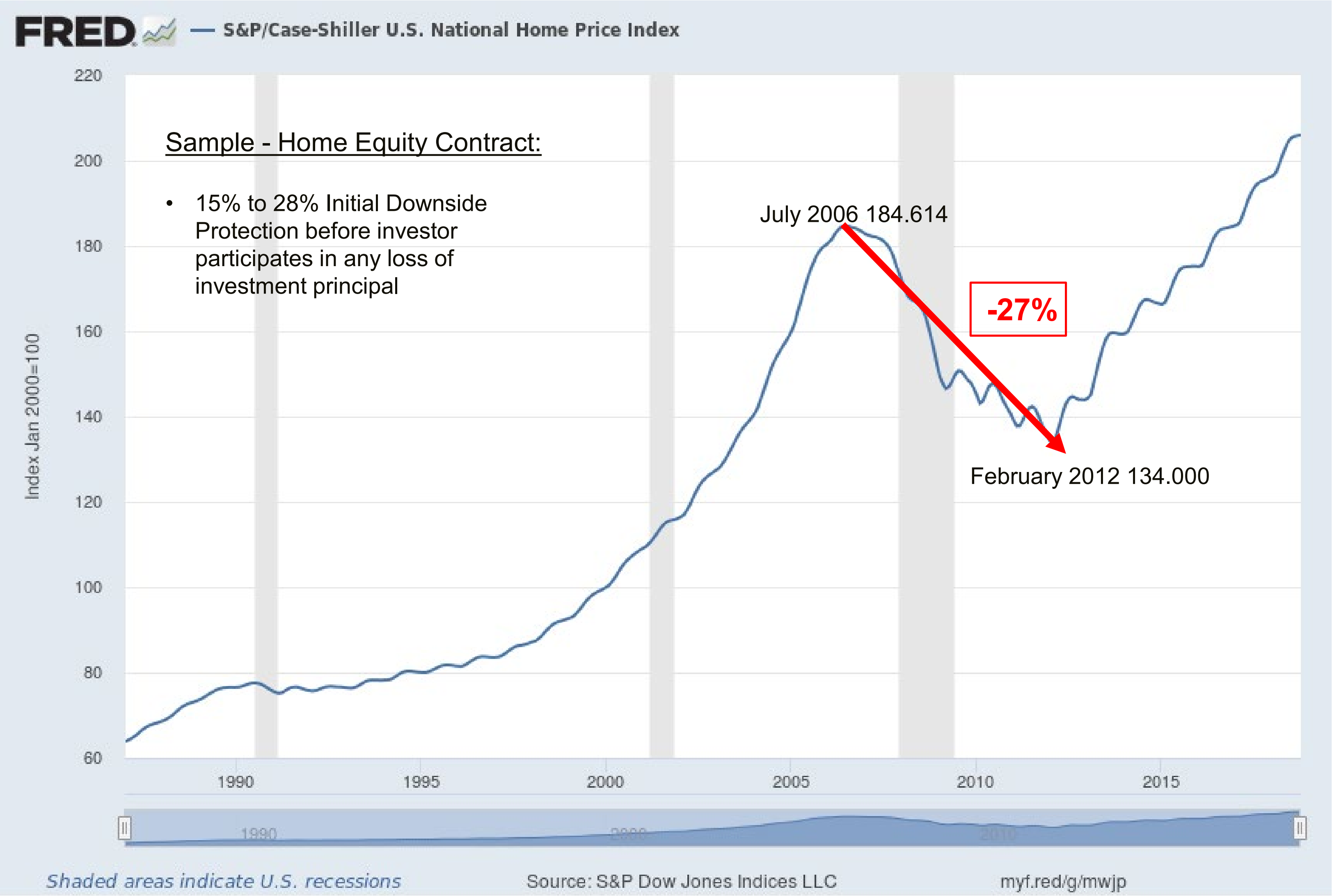
**** Max Contract IRR uses 18.64%*



	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7		Year 8		Year 9		Year 10	
	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg	Total	Annual Avg
Reaching Max IRR	-9.1%	-9.1%	-0.6%	-0.3%	9.6%	3.2%	22.0%	5.5%	37.1%	7.4%	55.3%	9.2%	77.3%	11.0%	104.0%	13.0%	136.4%	15.2%	175.7%	17.6%
Breakeven	-24.3%	-24.3%	-24.3%	-12.1%	-24.3%	-8.1%	-24.3%	-6.1%	-24.3%	-4.9%	-24.3%	-4.0%	-24.3%	-3.5%	-24.3%	-3.0%	-24.3%	-2.7%	-24.3%	-2.4%
Loss of Investment	-42.9%	-42.9%	-42.9%	-21.4%	-42.9%	-14.3%	-42.9%	-10.7%	-42.9%	-8.6%	-42.9%	-7.1%	-42.9%	-6.1%	-42.9%	-5.4%	-42.9%	-4.8%	-42.9%	-4.3%

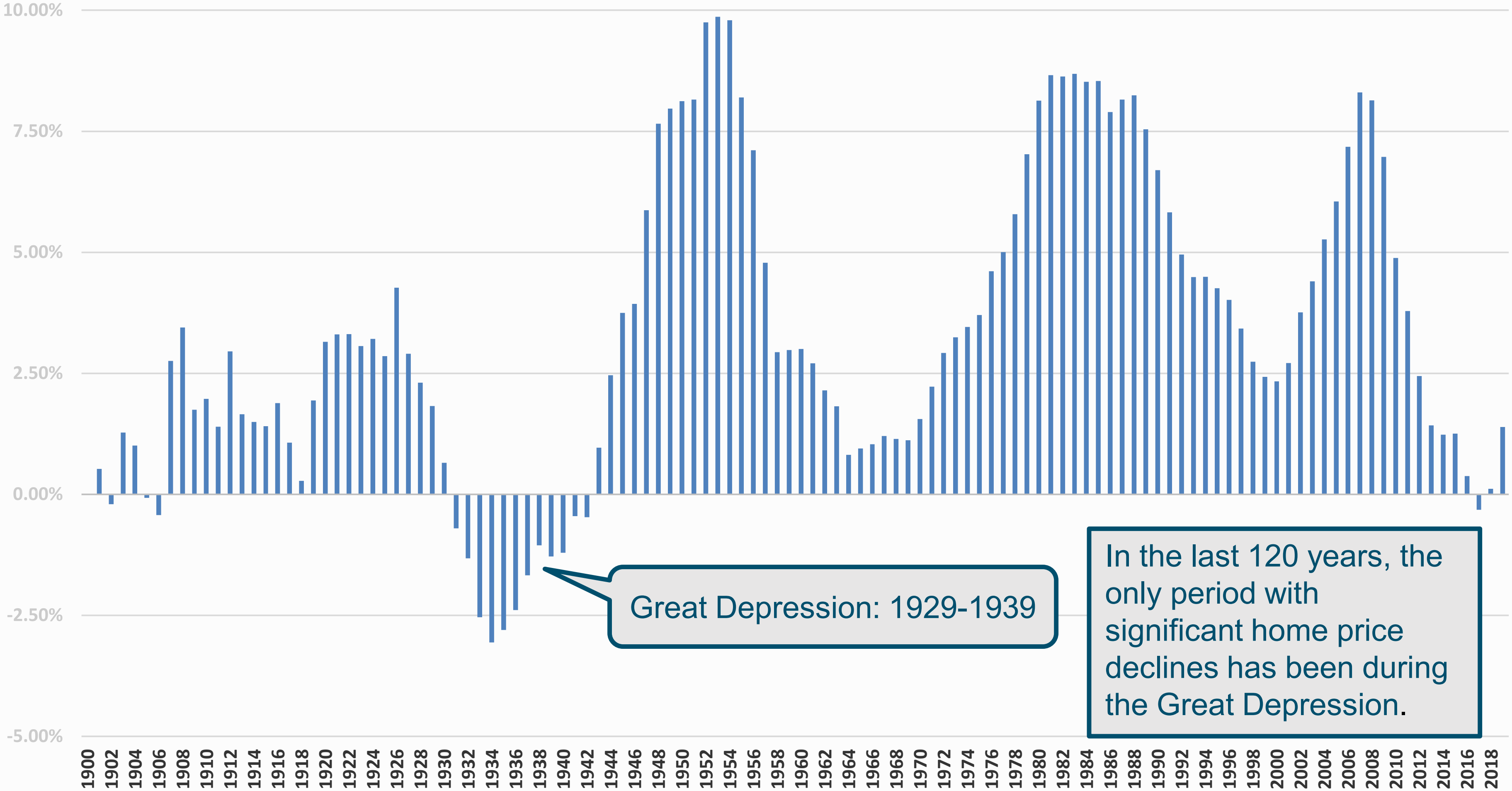
History & Downside Protection

Financial Crisis Example – Peak to Trough



Residential Real Estate Historical Performance

Annualized National Home Price Change - By Decade (10 years Rolling)



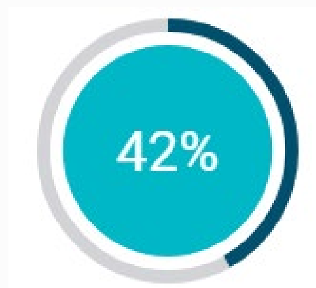
Source: Robert Shiller U.S. House Price Index Data; Hometap Analysis

Investing in Main Street
A Mutually Beneficial Relationship

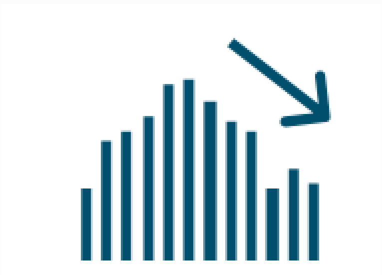
Target: Homeowners with 40% or more equity in their homes, who live in a desirable housing markets and who desire liquidity.

Investor: Provides liquidity in exchange for an expected return, with a perfected lien as evidence of the investment

Percentage of homeowners who stayed in their home during the 2008 downturn, rather than walking away, even when their home was significantly underwater



The average amount of equity the homeowner retains after the Home Equity (HEC) capital is invested



Historically, existing home sales decline when home prices decline. The homeowner typically stays put when prices drop.

Homeowners have substantial "Skin in the Game"

"A Hedge Fund Makes Billions Off Americans Underwater Mortgages." Wall Street Journal, 2 Jan. 2019.

*Fred Economic Research * Existing Home Sales Compared to Case Schiller Home Price Index*

Frequently Asked Questions

1. **Why would anyone want such expensive financing?**
    - This question is often asked by individuals of the “investor class,” however for 70% of Americans their home is their greatest investment asset and they may not have access to liquid capital. In this case, comparing the cost of capital of Home Equity Contracts to debt options such as American Express (29.9%), Lending Club (18%) and Credit Union personal loans (12%) which also come with the risk of leverage and the burden of debt service, Home Equity Contracts are a solid choice, as they are not debt, and do not have debt service payments and do not affect credit scores.

2. **What happens if the home owner doesn’t exit the contract by the 10-year mark?**
    - Although the investors in these contracts may have the right to foreclose on the property, that may not the most optimal solution for several reasons including the length of the process, the cost, and additionally it would be undesirable for all parties involved. A better solution would be to engage the contract originator to contact the home owner to evaluate the situation and make other arrangements such as a new Home Equity Contract.

3. **How will these contracts stand up to regulators, at both the state and federal level?**
    - The Originators have gone to great lengths to engage existing regulators in the creation and ongoing marketing of Home Equity Contracts. They continue to work with regulators as new states are included for Home Equity Contracts. Various regulators have submitted inquiries of the Originators, however their questions have been addressed and answered without further issue.

Government Relations Outreach
- Consumer Financial Protection Bureau (CFPB),
- The Federal Reserve, Federal Housing Finance Agency (FHFA),
- National Credit Union Association (NCUA)

Industry Groups
- Center for Financial Services Innovation (CFSI)
- Government Sponsored Enterprises (GSE)

Consumer Advocacy Groups:
- AARP
- Consumer Federation of America
- National Consumer Law Center

Frequently Asked Questions

4. **What happens if the home owner defaults on the home or becomes financially distressed?**
   - Home Equity Contracts are written for home owners with equity in their home. It is likely that at some point some home owners may experience some level of financial hardship, however a small number of individual cases are not likely to have dramatic affect on the outcome of a diversified portfolio of home equity contracts.

5. **How would these contracts fare in the face of another financial downturn or crisis?**
   - Research from the last financial downtown indicates that during a recession or poor housing market, equity rich home owners stay put, as evidenced by the reduced number of home sales during these periods. This factor may extend the duration of the Home Equity Contract, however our return models include the full duration of these contracts, and the potential returns in those scenarios.

6. **How do Home Equity Contracts differ from Reverse Mortgages?**
   - Here are just a few ways Home Equity Contracts differ from Reverse Mortgages

	Reverse Mortgage	Home Equity Contract
Mortgage Debt	Yes	No
Equity Partipation	No	Yes
Age Requirement	Yes	No
Interest Charged	Yes	No

The Kingsbridge Team

David J. Dunn
President

Chief Investment Officer

David J. Dunn is the President and founder of Kingsbridge Wealth Management, Inc. David has been a portfolio manager of 21 years and a private investment funds manager for 9 years, including the Kingsbridge Alternative Strategies Fund which began in 2009.

Tim Gollogly
Vice President

Tim Gollogly is focused on private fund management, investor relations, and alternative investments for Kingsbridge Wealth Management.

Kerri Dunn
Executive Vice President

Kerri L. Dunn is the co-founder of Kingsbridge Wealth Management, and serves as the Chief Compliance Officer, and as Director of Family Office Services for Kingsbridge Wealth Management.

Briene Eslinger
Senior Associate

Briene Eslinger, CPA leads the accounting, tax and audit reporting functions at Kingsbridge Wealth Management.

Martin Orton
Vice President

Martin Orton, CFP® is the head of operations for Kingsbridge Wealth Management, and manages all trading, back office support and processing functions for the firm.

Definitions

Contract Amount	The gross funding amount provided to the homeowner.
Appraised Value	The appraised value of the property at the beginning of the contract.
Risk Adjusted Home Value	The appraised value of the property at the beginning of the contract reduced by the risk adjustment percentage.
Risk Adjustment Percentage	This adjustment provides some of the downside protection for the investor, allowing the property value to decrease to this level before any investment is forfeited.
Participation Percentage	The percentage of the home price appreciation in which the investor will participate.
Max IRR	The contract places a maximum internal rate of the return.
Loan + Contract to Value (LOTV)	The ratio of the total debt on the house as compared to the appraised value.
Appreciation for no principal return	The amount the property may depreciate before the investment is fully forfeited.
Msa	Metropolitan statistical area
Cagr 10	Compound annual growth rate for the Msa over the last 10 years
Cagr 20	Compound annual growth rate for the Msa over the last 20 years
Max 12-month Loss	The largest depreciation experienced in the Msa within a 12-month rolling period in the last 20 years.
Length of Contract (Years)	The period of time before the home owner exited the contract through sale, refinancing or direct payment.
Gross IRR	The gross internal rate of return of the exited contract.
Home Price Change (%)	The home price change in percentage from effective date to exit date.

Contact Us

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