Mooring Financial Corporation:
"We Will Go Where No Fund Dares Tread"

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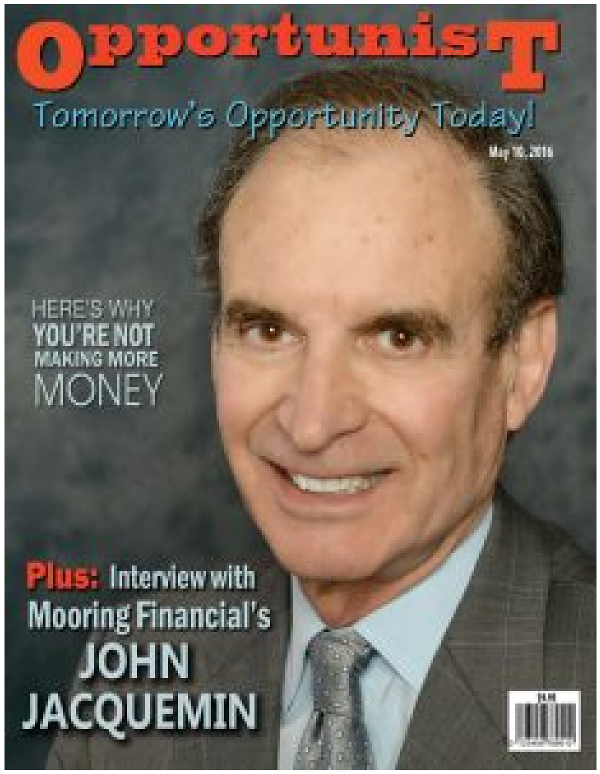


John Jacquemin is president and CEO of Mooring Financial Corporation, a company whose primary business is managing Mooring Capital Fund. Based in Northern Virginia, the hedge fund specializes in the acquisition and management of distressed commercial loans. In 2015, a year in which many hedge funds endured tremendous market volatility, Mooring Capital delivered a 21.1 percent net return to investors. According to Jacquemin, the fund achieves success by finding value that is unrecognized by most of the market. "I like taking an opportunistic yet long-term approach," he says. "I like being a contrarian. I'm not always a contrarian—sometimes I agree with the majority view—but I'm fortunate to have recognized periods of opportunity and I get a lot of satisfaction out of being able to invest in assets that have a very favorable risk-to-reward ratio."

Mooring Capital's portfolio has included loans secured by office buildings, retail centers, religious facilities, flex and warehouse space, multifamily, assisted living facilities, aircraft and marine vessels, agricultural assets, land and educational, sports and recreation facilities. These assets (totaling about $60 million at year-end 2015) are located throughout the country and internationally with a concentration in the mid-Atlantic and Southeast regions of the United States.

Opportunist: We understand that Mooring Capital Fund has consistently outperformed the S&P500, the Dow Jones Hedge Fund Index and the HFRX Global Hedge Fund Index through multiple economic cycles. How have you maintained this track record, especially during the Great Recession?

John Jacquemin: Sticking to the knitting and being disciplined in our value of assets, bidding on assets and taking the long-term view. We try to acquire assets that we turn around and restructure and that will be income-producing for a long period of time.

We experienced no losses overall during the recession. In fact, we did quite well because we took a portion of our assets and invested them in shorting financial stocks and real estate stocks. I think at one point we had close to 20 percent of our assets in short positions, which is unusual. My macro view is that if the economy is going to get very weak we will see a repricing of risk and a decline of just about every asset class. We turned out to be right. So in 2005, 2006 and 2007, everything was very strong and every asset was being bid up way beyond its intrinsic value. We bought very little then—almost nothing—and went through an acquisition drought. Those who did buy bought at very high prices and ended up probably not doing well.

Once the recession took hold there were lots and lots of defaults in just about every asset class and just about every industry suffered. The financial industry certainly suffered tremendously. Leverage buyouts were failing and all the debt that had been piled up by the private equity firms was defaulting. We saw the highest default rates in junk bonds in history during that period. So by 2009 when the economy was starting to recover you had a real debacle in commercial lending and lots of financial institutions were trying to sell some of their distressed assets. So we started buying at prices that made sense to us and it paid off. It's still paying off for us.

Opportunist: How do you determine which mortgages to invest in?

John Jacquemin: We typically gravitate toward areas with less competition. For example, in the late-'90s when banks decided they didn't want to be in the farm loan business anymore we acquired a number of agricultural loans. We dug in and did our due diligence, decided to bid on some that we felt could be a real opportunity for us and found that we were winning at prices we felt made sense. In some cases we will go where no fund dares tread and, as a result, we have done some very unusual deals.

Opportunist: Can you tell us about some of those unusual deals?

John Jacquemin: We acquired the mortgage on a banana plantation in Ecuador that was made by a failed bank in Miami that was closed down by the FDIC and selling off its assets. We also bought the working capital lines for a company on the island of Antigua. These were in the same pool. We got them at a very good price and they ended up providing a great return for the fund. We also acquired a pool of corporate aircraft loans in Venezuela and Argentina. Venezuela was and still is a pretty volatile and unstable country but we thought—and, as it turns out, rightly so—that we could buy these loans at very good prices. None of them defaulted and disappeared, which that kind of collateral can do very quickly.

Three or four years ago we did a $4 million deal on a helicopter going to Afghanistan. It wasn't an armed military helicopter but it was going to a war zone and being flown by government contractors and, I think, by U.S. government employees around Afghanistan. Our bank told us we could not use that loan as collateral for our line of credit. They thought it was too risky but we still did it—we just didn't leverage it—and it turned out to be a very good transaction for us.

About 20 percent of our current portfolio is religious facilities. This is an area we have gotten to know extremely well and have done well in over the long term. There is less demand for it and it has become kind of a specialty for us.

Opportunist: How does Mooring work with borrowers to modify and restructure commercial real estate loans?

John Jacquemin: We take a different approach. We like to establish a personal relationship with the borrower as quickly as possible. In fact, we just closed on two loans last week and probably within the next week or two our asset managers will be meeting with those new borrowers. They are happy to have someone to talk with. Banks don't generally like nonperforming loans—they are the ugly stepchild, so to speak—and we step in and try to assess and understand their situation, why they are in default and what they are trying to do with the property.

We work with the borrower and try to restructure in a way that will work for both the fund and the borrower and usually can find a way to do that. Sometimes we will even invest additional capital. Let's say a borrower has an office building and potential tenants but no cash for tenant improvements, which can be very expensive. Without those improvements, however, tenants cannot move in. That's where we come in. We have made additional loans to get cash flow into that building and, obviously, to us for that service payment. The borrower gets back on track and the situation becomes positive. We are very hands-on in helping with things such as approving a new sign for a tenant in a shopping center or putting in a security system. We are anxious to invest to improve the property and keep our tenants happy. That comes across to them pretty quickly, and we really have fun with it.

Opportunist: It sounds like you take a benevolent approach to business.

John Jacquemin: Oh, absolutely. In some cases we actually have to take over these assets. It's not always our plan going in, but we never look at a deal secured by an asset if we are not willing to become the primary owners of it. We have done it with shopping centers, office buildings or when a real estate owner or developer is unable or unwilling to continue. These properties are distressed because they don't have enough tenants to produce cash flow but they are built well and not too old. There was a lot of overbuilding from 2003 to 2007 when the economy was going strong and that created an oversupply of retail, office and other commercial real estate in quite a few areas.

Opportunist: What does Mooring Capital Fund hope to accomplish during the remainder of 2016?

John Jacquemin: I hope we can find a place to reinvest all the cash coming in from the refinancing because lenders want to lend. Interest rates are very low. Many of our borrowers are able to go out and refinance the loan and pay us off. That's great for our return but, on the other hand, if we don't have enough places to reinvest the cash we have to send it back to investors. I am always hoping to continue evaluating assets and make new investments.

We are not in a position to take new investment dollars because the funds are coming in more rapidly than we can reinvest. At some point I hope that will reverse and we will be able to accept more outside money. It may take a recession for us to get there, but I'm certainly not hoping for a recession.

The outlook is very good for this year. We had a pretty incredible transaction close just two weeks ago. It will have a substantial impact on our return.

Opportunist: Are you at liberty to discuss it?

John Jacquemin: One of the assets we acquired from the FDIC is an interest in an industrial park in North Las Vegas. Two weeks ago, a Chinese company that plans to make electric cars called Faraday Future purchased about 800 to 900 acres in that industrial park where we have a substantial interest. They say they are going to spend about $1 billion to build an electric vehicle manufacturing plant that will compete with Tesla.

There is another interesting development happening in that same industrial park. A company that is building a Hyperloop transportation system is leasing land there to build a prototype. Hyperloop transportation works like the pneumatic tubes you see at the bank drive-thru. They are large tubes with passenger compartments. The technology is open source—at least by [business magnate] Elon Musk and his company, SpaceX—and has been made available to scientists and engineers everywhere. There is lots of excitement about it. A recent article in *USA Today* says the Hyperloop wars are on and competing teams are showing off prototypes to see who can build the best, most viable systems. Three Hyperloop prototypes are being built right now. One by Elon Musk's company in [Los Angeles County], another [skyTran in San Francisco] and one by Hyperloop Technologies in North Las Vegas. This industrial park certainly seems to be drawing high-tech companies on the edge of breakthrough developments in transportation. It's nothing I can take credit for, but it's fun knowing we are part of it in this way. We made a smart buy, but we were also lucky because we weren't anticipating a transaction of this magnitude.

Opportunist: As a hedge fund manager, what is your greatest concern right now?

John Jacquemin: I always try to frame what we do with a macro view because if we are very bearish as we were in 2006 and 2007, we pull back and are less aggressive bidders. If we think there's an economic downturn coming then we are more cautious. When many economists were still very pessimistic we believed there was a real turnaround coming and that growth would continue for a number of years and it has. Since 2008 or 2009, we have been bullish and we have been growing steadily.

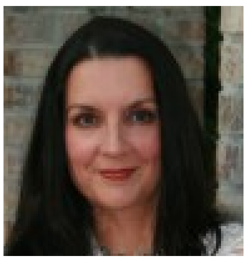
Today, I think there's a lot of nervousness about another recession here in the states or even worldwide but I still feel we will continue in a slow growth mode for a while longer. One reason is because we have not seen the excesses that we normally see during peaks. The excesses we saw in the late-'90s in technology, for example, before the tech bubble burst in March of 2000, and the excesses that we saw in 2005, 2006 and 2007—in basically all asset classes—we really aren't seeing now. We see isolated incidences but it hasn't become full blown. I don't believe we are anywhere near a bubble that will put the economy at risk of recession for the next couple of years anyway. I'm still bullish. That may be kind of a contrarian view today, but we often have contrarian views.

Opportunist: Do you believe the outcome of this year's presidential election will affect the economy?

John Jacquemin: No. I don't think it will have a great effect on the economy. Nobody could've predicted where we are today with Trump being the Republican shoe-in as the nominee. I certainly had dismissed Trump very quickly and thought he would fade in a matter of months—weeks even—and it's really hard to understand what has happened. But in terms of any actual effect on the economy, I don't think that whether Hillary Clinton wins or Donald Trump wins will have any immediate impact. It might mean more nervousness if Trump wins because we don't really know what he thinks and he doesn't really know either what he thinks about a lot of issues. He's kind of making it up as he goes along. That's a little worrisome.

Opportunist: What do you consider your greatest accomplishment?

John Jacquemin: I think having built a company that has been profitable and stable since its inception and has provided me with tremendous opportunities to enjoy everything that life has to offer. Another part of this is that I have provided opportunity for our employees. We don't employee a lot of people but we have provided opportunities for them to grow both here and in moving on to other places. Helping people realize their potential has always been one of my most important goals. I feel a responsibility and a certain pride in doing that.



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