KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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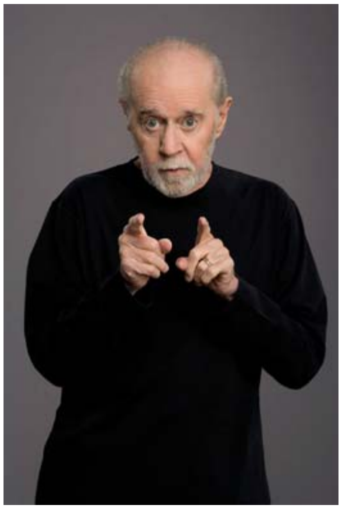
JULY 2017 KOMMENTS
FOCUS ON REAL ESTATE



INSTITUTIONAL REAL ESTATE:

Since September 30, 2009 our firm has been investing client money in the institutional real estate asset class. Real estate has, and we believe shall continue, to benefit our clients for which this asset class is suitable. Overall, this asset class provides equity ownership (like stock in a company) and income (like a bond). Yet the income from real estate tends to rise over time rather than stay flat as one would typically experience in a traditional bond investment. So we see this asset class as capable of *delivering growth in value as well as rising income.* Since 9/30/09 to 7/31/17, our strategy has returned 14.2% annually, net of all expenses, and generates a 3.8% annual income.

Our strategy has invested in office space, warehouses, apartments, cell towers, shopping centers, pipelines, mortgages, retail storage facilities, health care facilities, hotels and resorts. We have maintained a core holding that gives broad diversification to many sectors within the asset class. We have also emphasized certain sectors when we felt it appropriate to do so.

Since 2009 we have lived through various phases in our economic and political environment. We have made changes in sector weightings to better reflect our outlook for selected sectors in the asset class. One major change has come about as the Federal Reserve has both intimated and then actually raised interest rates. We have also witnessed a growing tendency for people to buy through the internet rather than go to a shopping mall. Brick and mortar stores have shriveled while on-line retailers have blossomed. Shale oil production in the USA has ramped up even as the world faces a petroleum supply glut.

When interest rates are expected to or actually do rise, real estate values are negatively affected just like a bond would be. There has been a meaningful negative impact on brick & mortar retail centers because of both higher interest rates and increased internet sales. Pipelines, even with take-or-pay-contracts with their customers, have also been hurt by increases in interest rates negatively affecting producers/drillers, costs to construct new facilities, and the drop in oil prices. Yet the income from our pipeline investments has remained relatively stable.

So what changes have we made? We eliminated the National Retail Properties (NNN) exposure. We maintained the pipeline (AMLP) and mortgage (REM) exposure in only our yield-oriented strategies. We added W. P. Carey (WPC) as a commercial property owner with long-term triple-net leases and we added Sun Companies (SUI) which owns RV parks, over 55 communities and manufactured housing. We also added Crown Castle International (CCI) which owns and leases shared wireless infrastructure in the USA and Puerto Rico. Lastly, we have kept our Extra Space Storage (EXR) investment because, as the late comedian, George Carlin (pictured above) would have said, "You got to have a place to keep your stuff…."