PARADYME

PARADYME SECURED INCOME FUND, L.P. *Q4 2023 Review and Outlook*

FUND OVERVIEW

The Paradyme Secured Income Fund, L.P. invests in debt loans for new construction, property conversion, renovation, and other interests in real estate; all secured by first trust deeds. The Secured Income Fund (SIF) was designed to provide investors with current income in the form of regular, stable cash distributions at an attractive risk-adjusted yield and preserve and protect invested capital.

The portfolio manager of the Fund is Michael Reveley, an experienced investment professional with a demonstrated history of bringing both managerial expertise and investment capital to opportunities across multiple market sectors. Mr. Reveley was formerly the CIO of two asset management companies, Seagate Global Advisors and SEAL Capital, both located in Los Angeles, CA.

Paradyme Secured Income Fund, L.P. Quarterly Net Returns

Date	Net Fund Return	Preferred Return	AUM
Q3 2021	-1.540%	1.31%	$1,100,000
Q4 2021	-1.510%	1.81%	$1,100,000
Q1 2022	0.000%	1.82%	$1,350,000
Q2 2022	0.000%	1.71%	$2,570,245
Q3 2022	1.990%	1.99%	$3,220,245
Q4 2022	0.220%	1.90%	$6,793,624
Q1 2023	0.660%	2.05%	$7,073,582
Q2 2023	1.430%	2.39%	$7,506,135
Q3 2023	1.100%	1.60%	$20,916,035
Q4 2023	1.65%	2.52%	$20,916,035

Portfolio Metrics

Number of Loans	32
Avg Maturity (years)	0.45
Avg Loan Size	$797,538
Total Outstanding Loan Book	$25,521,223
Avg Yield	11.87%
Largest Three Loans as a % of the total loan Book	56.23%
Largest Loan Notional	$7,680,000

Fund Information

Focus:	Secured, short duration real estate loans
Fund Inception:	June 2021
Portfolio Manager:	Michael Reveley
Telephone:	310-292-5474
Website:	paradymeinvestments.com

Fund Terms

Minimum Investment:	$100,000
Initial Lock Up:	None
Distributions:	Quarterly
GP Fees:	Management Fee 2%
	Carried Interest 30% subject to a 8.5% preferred return, with a 30% catch up

Service Providers

Investment Contact:	michael@paradymecompanies.com
Fund Admin & Accounting Contact:	MGO LLP
Tax and Audit:	Marcum LLP

FUND PERFORMANCE

The SIF was up 1.65% during Q4 2023. SIF performance is derived from underwriting solid loans while carrying minimal cash balance to maximize the interest income that we pass through to investors in the form of the Preferred Return (10% p.a.). During the quarter the Team diminished the cash balances that we carried from Q3 with a focus on short-dated bridge loans for acquisitions and ground up construction. The SFR and MFR fix and flip market continues to be impacted by the higher interest rate environment, higher pricing dynamics and supply constraints. Therefore, our portfolio has seen less turnover in the secondary market as note buyers tend to prefer the loans that are derived from the fix and flip market over other forms of secured notes. However, given the outlook for lower rates in the second half of 2024 and the sensitivity of lower interest rates to home buyers, sellers, developers and investors, we anticipate that the overall market dynamics of the SFR/MFR fix and flip market should move into a much healthier balance as rates fall

Risk Markets – 2023 Review

Index	2022 YOY % Return	2023 YOY % Return
Nasdaq	-33%	+40%
S&P 500	-20.2%	+22%
Wilshire US REIT	-26%	+17%
Multi Family Housing	-7.84%	-24%
Case Shiller SFR	+5.6%	+5.5%

Source: St. Louis Fed

Inflation Statistics

Index	2022 YOY % Return	2023 YOY % Return
CPI	+18%	+9.2%
CPI ex Food and Energy	+6.48%	+4.6%
Energy Prices	+22.9%	-12.6%
Food and Beverages	+28.48	+8.07

Source: St. Louis Fed

THE “MAGNIFICENT SEVEN” MELTS THE EQUITY MARKET UP:

The Mag 7 tech stocks — Apple, Alphabet, Microsoft, Amazon, Meta, Tesla, and Nvidia— make up 29% of the S&P 500’s market cap. While 2023 proved to be a robust performance year for the S&P 500 index, nearly 75% individual stocks within the index posted a return below that of the index. Only 25% of constituents outperformed — the lowest rate since at least the late 1990s, falling well below the long-run average of 49%. The Mag 7 alone accounted for over 90% of the S&P 500 index returns in 2023. The introduction of artificial intelligence (AI) was the primary driver of their share price. Companies like Microsoft, Amazon, Google, Meta, and Nvidia benefitted from the continued adoption of cloud computing and AI technologies. Nvidia’s AI chips drove it’s exceptional 243% year-on-year share price gain in 2023. Overall, the market has pulled forward massive earnings potential related to AI. The technology is truly groundbreaking and the optimism for earnings potential is warranted. However, my belief is that there are private companies, currently developing AI applications, that will be the major beneficiaries of AI monetization:

1. **HEALTHCARE: AI HAS THE POTENTIAL TO REVOLUTIONIZE HEALTHCARE BY:**
    - **Assisting with diagnosis and treatment:** AI algorithms can analyze medical images and data to identify diseases, predict patient outcomes, and personalize treatment plans.
    - **Drug discovery and development**: AI can accelerate drug discovery by analyzing vast amounts of data to identify potential drug targets and simulate their interactions with biological systems.
    - **Robot-assisted surgery:** AI-powered surgical robots can improve precision, minimize invasiveness, and shorten recovery times.
2. **FINANCE: AI IS ALREADY TRANSFORMING THE FINANCIAL SECTOR THROUGH:**
    - **Fraud detection and prevention:** AI algorithms can analyze financial transactions in real-time to detect and prevent fraudulent activities.
    - **Risk management:** AI can assess financial risks associated with loans, investments, and insurance policies, allowing for better decision-making.
    - **Algorithmic trading:** AI-powered algorithms can analyze market data and trends to execute trades automatically and potentially outperform human traders.
3. **MANUFACTURING: AI IS MAKING SIGNIFICANT STRIDES IN:**
    - **Predictive maintenance:** AI can predict equipment failures and schedule maintenance interventions proactively, reducing downtime and costs.
    - **Robot-assisted manufacturing:** AI-powered robots can handle complex tasks with greater precision and efficiency, enhancing productivity and safety.
    - **Supply chain optimization:** AI can optimize logistics and inventory management, leading to improved efficiency and cost reduction.
4. **RETAIL AND E-COMMERCE: AI PLAYS A CRUCIAL ROLE IN:**
    - **Personalization:** AI can analyze customer behavior and preferences to personalize product recommendations, marketing campaigns, and offers.
    - **Demand forecasting:** AI can predict future demand for products, allowing retailers to optimize inventory levels and minimize stockouts.
    - **Chatbots and virtual assistants:** AI-powered chatbots and virtual assistants can provide customer service, answer questions, and fulfill orders, improving customer experience and reducing operational costs.
5. **OTHER INDUSTRIES: AI IS ALSO GAINING TRACTION IN VARIOUS OTHER SECTORS, INCLUDING:**
    - **Transportation:** Autonomous vehicles, traffic management, and logistics optimization.
    - **Cybersecurity:** Threat detection, vulnerability assessment, and automated response systems.
    - **Education:** Personalized learning, intelligent tutoring systems, and automated grading.

It’s important to remember that AI adoption and its impact will vary across industries and individual companies. The key factors influencing the level of benefit include:

- **The nature of the industry:** Industries with tasks involving data analysis, pattern recognition, and repetitive processes stand to gain more significant advantages.
- **The availability of data:** AI algorithms require large amounts of data to train and function effectively. Industries with readily available and relevant data sets are better positioned to leverage AI.
- **The willingness to invest:** Implementing and scaling AI solutions often requires substantial investments in hardware, software, and expertise. Companies willing to invest in AI stand to gain a competitive edge.

HOUSING INDUSTRY OUTLOOK

As you can see from the table above, the Case Shiller index for single family housing (SFR) outperformed as inflation rose in 2022 but underperformed in 2023, at least when compared to the Mag 7. The multi family sector was more problematic as worries over rising interest rates, high leverage ratios, falling cap rates and oversupply drove values lower in 2022 and 2023 on a Year over Year (YOY) basis. We believe that valuations in the MFR sector will improve in 2024 as rents stabilize and interest rates fall. The US is still in an undersupplied market for housing, whether it be single family or multi family homes. So, the underlying market dynamics will trump the short term concerns related to MFR in our opinion.

Overall, the US housing industry is a complex and dynamic sector, characterized by both positive and challenging trends:

- **Large and growing market:** The US residential real estate market holds immense value, estimated at USD 2.53 trillion in 2023 and projected to reach USD 2.80 trillion by 2028. This indicates a steady growth trajectory.
- **Strong demand from specific segments:** First-time homebuyers, investors, and cash buyers continue to contribute significantly to market activity, particularly in specific price ranges and cities with strong migration trends.
- **Sensitivity to falling interest rates:** The Federal Reserves next move is likely to be a reduction in interest rates by Q3 2024. Assuming we continue to see the trend of moderating inflation, the Fed will look to reduce the historically high rates, albeit gradually. With lower mortgage rates, we will see inventory of homes for sale increase and valuations moderate marking a return to a more balanced overall market. It was the supply imbalance (lack of inventory) and once in a lifetime low mortgage rates that drove prices higher during covid.
- **Limited inventory:** The availability of homes for sale remains low, contributing to price increases and competition among buyers. However, on a national basis, home prices peaked in Q4 2022 at $480,000. By end of Q4 2023, the median sales price fell to $417,000 (Source: St. Louis Fed). This is tightly correlated to the supply of existing homes for sale which hit a low of 2.6 months in Feb 2023 and rose to 3.6 months by October of 2023. Although we expect overall inventory to remain undersupplied, lower mortgage rates in 2024 will bring out more homes to the market.

Overall, the scope for falling interest rates as well as the scope for continued economic growth will dominate the outlook for housing supply, prices, and overall affordability. Even though SFR valuations are primarily local, here are some other macro factors that may have an impact to the overall health of the market.

Drivers	2024 trend	Impact to Valuations
Mortgage Rates	Lower in H2 2024	Stable to Higher
Existing SFR Supply	Higher	Lower
Economy	Slowing but no Recession	Stable to Lower
Jobless Claims	Higher	Lower
Affordability Index	Higher	Stable to Higher
Migration	High tax to low tax states	Higher in low tax states

MACRO EVENT HORIZON

1. ***Federal Reserve* –** This is an engineered soft landing by the Fed driven by higher interest rates. If jobless claims rise, the Fed will quickly adjust rates lower. Therefore, we view the macro risk to the economy of a “too high for too long” scenario leading to a severe recession as small.
2. ***Geopolitical* –** The world is experiencing two wars, both capable of pulling us into a larger conflict. The Ukraine war seems to be moving slowly toward a settlement. Russia military power has been degraded and shown to be less powerful than expected as the battle lines have stagnated well to the East of Kiev. The war has not erupted into a wider conflict in Europe and is unlikely to do so despite the rhetoric coming out of Washington.

   The war in Gaza appears to be contained as Hezbollah has chosen to stay of out the conflict. Israel, for the most part, continues to enjoy international support, especially from the West, for the removal of Hamas. As long as the other regional Arab powers stay out of the mix, this conflict will remain contained. Iran and their proxies remain the unpredictable wild card which could lead to a wider and more dangerous conflict with the price of oil being the wild card. The continued trend of lower energy prices are needed to help bring inflation back to the Fed’s target.
3. ***China* -** Tawain continues to remain a flashpoint with regular incursions into Taiwan airspace. In my view, the risk of a military takeover remains low but rising. The West has no way to effectively defend Taiwan militarily other than to provide the weapon systems necessary to make the incursion very costly for the Chinese PLA over the short and long term. A near term event in 2024 is unlikely but worth paying close attention to. The Chinese are experiencing an economic slowdown, which could lead to protests, unrest, and very bad decisions from Beijing.
4. ***US Elections* –** Election cycles generally bring continued government spending by the party in power. This cycle is no different. We continue to expect massive deficit spending to remain a key feature regardless of who takes office in January of 2025. However, as we approach November, the divisions and fear mongering from both sides will be larger than ever. This level of rhetoric is not a great environment for consumer optimism and spending on goods and services which drives 70% of GDP.

Important Disclosures and Risk Factors

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