PARADYME

**PARADYME SECURED INCOME FUND, L.P.** *Q1 2024 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 |
| **Q1 2024** | 3.19% | 2.47% | $19,621,362 |

### Portfolio Metrics

| | |
|---|---|
| **Number of Loans** | 31 |
| **Avg Loan Size** | $853,095 |
| **Total Outstanding Loan Book** | $26,445,573 |
| **Avg Yield** | 11.42% |
| **Largest Three Loans as a % of the total loan Book** | 54% |
| **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 3.19% during Q1 2024. 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.). The private credit market in our space remains relatively unchanged since our last update as the market waits for the Federal Reserve to lower rates. Loan origination remains skewed to ground up and acquisition financing while fix and flip SFR loans are lackluster at best. Some recent research has shown that the fix and flip loan market has slowed down 65% or more due to the interest rate environment and lack of supply. We don't see this changing until the Fed lowers interest rates. The Fed is fighting the inflation battle with higher rates which for the housing market simply reduces the number of homes on the market for sale. Time tested supply and demand dynamics remain in place – the US has 5 – 7 million fewer homes than it needs to satiate demand leading to higher, not lower, home prices. Ironically, to reduce both rental and housing inflation, the Fed will need to lower rates to spur homes sales and new construction thus increasing supply. However, housing prices are clearly not the top priority for the Fed. They are pressing on the levers that they control, money supply and interest rates to bring overall inflation ex. food and energy to an acceptable level of 2% while fighting the out-of-control spending coming from D.C.

## Q1 2024 RISK MARKET SUMMARY

### The "Magnificent Seven" reduced to the "Fab Four"

Overall, investors are still in a "Risk On" mode. However, the group of seven major tech companies – Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia, and Tesla that were responsible for a significant portion of the market's gains in 2023 saw a change in leadership. While the overall market performed well, three members of the Magnificent Seven – Apple, Alphabet, and Tesla underperformed their peers, particularly Tesla which saw a 33% decline in its share price. This left the remaining four – Nvidia, Meta Platforms, Microsoft, and Amazon – as the top performers, earning them the "Fab Four." They all experienced double-digit stock price increases in Q1 2024, driving the equity market's growth.

During Q1 2024, the risk markets as measured by the S&P, rallied 10.6% on 3 main themes:

1. The coming AI revolution will increase earnings and reduce costs for businesses, both large and small. We agree but think the market is overly optimistic with respect to the near and medium term earnings impact.
2. Inflation trends will continue to fall. We agree but the amount of government spending continues to counter the Fed's interest rate hikes. So higher for longer but then a sharp reduction back to 3% by Q1 2024.
3. The Fed's next move will be a reduction in interest rates. Agreed.

**AI Revolution:** The AI theme is largely still intact, but the markets are starting to parse out future winners and losers with much deeper analysis. One surprising aspect to note may be that Alphabets near monopoly in search is at some risk due to AI gains on other platforms. Microsoft has about 5% of the search queries vs Alphabet at 95%. The market is beginning to price in a possible shift in search to platforms that integrate Generative AI. Chat GPT, Perplexity AI and other newcomers like Anthropic are increasingly seen as a better search engine. Generative AI allows for a more conversational search experience, understanding user intent and providing summaries or creating content based on their needs. These AI models can also summarize information from huge datasets, offering users a more comprehensive understanding of a topic. At a minimum, Alphabet dominance in search is now seen to be at risk.

**Inflation and Interest Rates:** Inflation trends and the interest rate picture are increasingly less certain. The Fed has remained vigilant as inflation has remained above its goals, but the Fed will eventually win this battle. It has been hard for the Fed to slow growth/inflation since fiscal stimulus has offset monetary tightening. As a result, the yield curve has mostly bear-flattened as the economist revised growth prospects higher. In an environment where growth is moving higher and the market is busy repricing away Fed cuts, the curve bear flattens as rates move up mostly at the front-end. The "Old Economy'' does well: value, cyclical, energy-related stocks deliver solid performance as the growth cycle is re-rating higher. Generally, these sectors don't need lower rates to thrive, they just need strong economic growth. We saw this phenomenon in Q1 with the outperformance of value over growth stocks.

Troubling moves higher in a range of commodities in Q1 have disrupted the positive trend and outlook for inflation over the near term. WTI oil prices surged 16% during the first quarter of 2024 as the supply/demand outlook tightened and global geopolitical concerns intensified, pushing both U.S. and European benchmark crude futures to five-month highs. WTI rose in every month of the first quarter, following three months of declines between October-December 2023. Rising energy prices flow through to virtually every sector of the economy, so if oil remains elevated, watch for negative trends in inflation indexes that are tracked closely by the Fed.

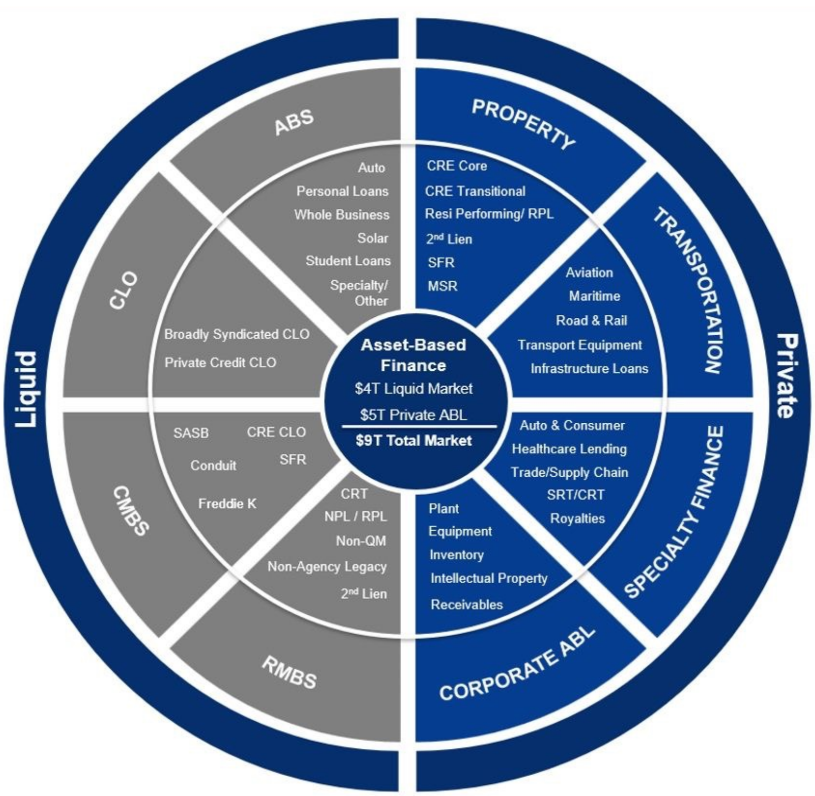
Higher for longer is now the mantra for 2024 and equities along with other risk assets may have to adjust lower and will likely demonstrate a higher volatility profile. Here are some additional risk points that we are watching:

- Liquid and private loan default rates have increased from sub-1% to 4%+, the highest level post-GFC (2009).
- Corporate default rates increased at the fastest pace since 2009, with 15 defaults in February bringing the 2024 count to 29, according to a report from S&P Global Ratings.
- Commercial Real Estate delinquency rates are at their highest level since the GFC, rising to ~6%, led by the office sector, as CRE has had its sharpest decline in valuations since 1990-91.

**Asset Based Lending Outlook**

The Paradyme Secured Income Fund fits into the asset class called Asset Based Lending or ABL. The chart below shows both the enormous size of this market and the various sectors that are available for investors (source: Marathon Asset Management). The SIF strategy fits in the private ABL, property sector.

**ASSET-BASED FINANCE: PRIVATE ABL ($5T0 & LIQUID ($4T)**



The private ABL market is a large and growing sector of private credit. It's currently around $5 trillion and is expected to reach $10 trillion in the next decade. This growth is due to several factors, including banks pulling back from lending due to regulations (Basel 3) and increased demand from investors for alternative investments. Asset allocators are re-examining their allocation models for Private Credit, that includes both direct corporate origination funds and ABL funds.

ABL managers provide loans secured by various assets, including property, equipment, inventory, and receivables. This diversification makes ABL an attractive option for investors seeking a return on their capital. The private asset-based lending (ABL) market is poised for significant growth, becoming the leader in private credit and surpassing direct corporate lending. This is due to banks' lending less (driven by regulations) which creates a need for capital that ABL can fill.

Asset managers like Paradyme are recognizing this opportunity and building their ABL business. We appreciate our investors continued support and welcome the opportunity to expand our level of communication and confidence in our investors.

Please feel free to reach out anytime to schedule a call.

**Mike Reveley**
***Paradyme CEO and Portfolio Manager for the Secured Income Fund***

## Important Disclosures and Risk Factors

This summary contains confidential information and may not be distributed in any form without the express written consent of the Manager or the Fund's general partner This document is neither an offer to sell nor a solicitation of an offer to buy any interest in the Fund Such an offer, if made, will be made pursuant to confidential offering materials for the Fund (the "Offering Memorandum") that should be carefully reviewed before determining whether to invest The description of the Fund's strategy and features above summarizes information provided in the Offering Memorandum or otherwise available in more detail from the Fund Before considering an investment, eligible investors in applicable jurisdictions should carefully review ( the Fund's Offering Memorandum, including a complete description of the Fund and its strategies, policies and risks,risks,( the Fund's financial information, together with any available independent verification and ( any other relevant factors to the potential investor ( without limitation, assets under management ( redemption levels and restrictions on redemption levels

Neither the Manager nor the Fund makes any representations or warranties as to the accuracy, completeness or timeliness of the information, text, graphics or other items contained herein The Manager and the Fund expressly disclaim all liability for errors or omissions in, or the misuse or misinterpretation of, any information contained herein

The performance information provided above represents unaudited estimates generated by the Manager, which are subject to audit by the Fund's independent auditors The Fund's performance includes the reinvestment of income and other earnings from securities or other investments held by the Fund, net of all expenses, including management fees and after applying the incentive allocation due to the Fund's general partner Performance figures have been calculated using a hypothetical investor that made an initial investment on June 1, 2021 and pays full fees with no intra year contributions or withdrawals

Past performance is no guarantee of future results and future returns are not guaranteed Any investment in the Fund involves significant risk, including the risk of loss of all or a portion of an investment Actual outcomes and results may differ materially from the returns indicated herein Economic, market and other conditions may cause the Fund to alter its investment objectives, strategies and guidelines Nothing herein is intended to imply that an investment in the Fund may be considered " conservative,""risk free" or "risk averse.