



PENN
CAPITAL

— ACCREDITED INVESTOR GUIDE

THE DIVERSIFICATION **PLAYBOOK**

A portfolio that can keep paying when markets
get unpredictable.

THE ILLUSION OF A DIVERSIFIED PORTFOLIO

Most investors believe they are diversified. They hold stocks, government bonds, and corporate debt across multiple sectors. But when a true macroeconomic shock hits, they discover a painful reality: they do not hold a diversified portfolio. They hold a highly correlated portfolio of paper assets.

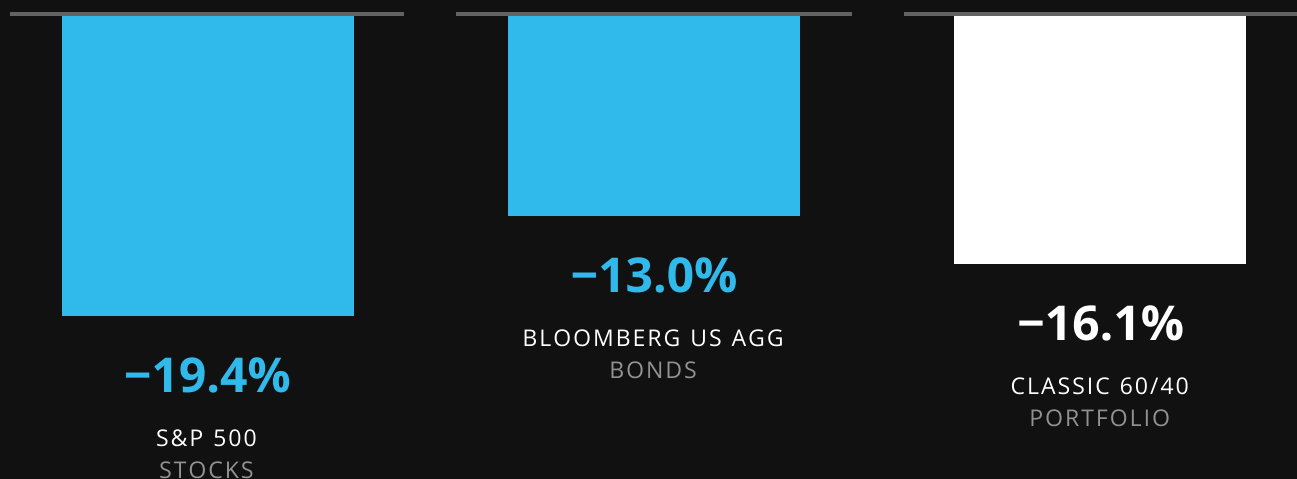
The traditional 60/40 portfolio, 60% stocks and 40% bonds, has been the bedrock of wealth management for decades. The premise is simple: when stocks fall, bonds should rise, cushioning the blow. However, the modern financial system has fundamentally altered this dynamic. In an era of sustained inflation and rapid interest rate hikes, stocks and bonds no longer act as counterweights; they move in tandem.¹

THE 2022 WAKE-UP CALL

As inflation surged and central banks aggressively tightened policy, both equities and fixed income suffered historic, simultaneous declines. The classic 60/40 portfolio lost over 16% of its value, its worst performance in generations.²

2022: THE YEAR "SAFE" PORTFOLIOS WEREN'T SAFE

All three major asset classes fell simultaneously: annual return, %



Sources: S&P 500 Total Return Index; Bloomberg US Aggregate Bond Index; Morgan Stanley Investment Management.

This simultaneous decline left investors with nowhere to hide in public markets. It demonstrated that holding different asset classes is meaningless if those assets share the same underlying risk factors: primarily interest rate sensitivity and public market sentiment. True diversification requires assets that are fundamentally non-correlated to Wall Street.

A SIMPLE SELF-AUDIT

How much of your net worth moves when the Nasdaq moves? How much of your wealth is concentrated in the “Magnificent 7” tech stocks that currently dominate index funds?

ASSET CLASS CORRELATION MATRIX

Private real estate has near-zero correlation to stocks (20-year data)

	S&P 500	US BONDS	PRIVATE RE	BITCOIN
S&P 500	1.00	0.05	0.04	0.30
US BONDS	0.05	1.00	-0.10	0.05
PRIVATE REAL ESTATE	0.04	-0.10	1.00	0.02
BITCOIN	0.30	0.05	0.02	1.00

Source: Ares Wealth Management (20-year data); Nuveen Resiliency & Diversification Report.

THE INSTITUTIONAL ADVANTAGE

While retail investors suffered in 2022, high-net-worth individuals, family offices, and institutional investors deployed a different strategy. They have long understood that genuine wealth preservation requires tangible, alternative assets. Financial advisors to the ultra-wealthy increasingly recommend allocating 20% or more to alternative assets, specifically private commercial real estate.³

Private real estate offers a structural advantage: it is insulated from the daily emotional swings of the stock market. A multifamily apartment building does not lose 10% to 20% of its value overnight because of a poor earnings call from a tech company or a geopolitical headline. Its value is derived from its ability to generate cash flow in the real economy.



PART TWO · THE ANCHOR

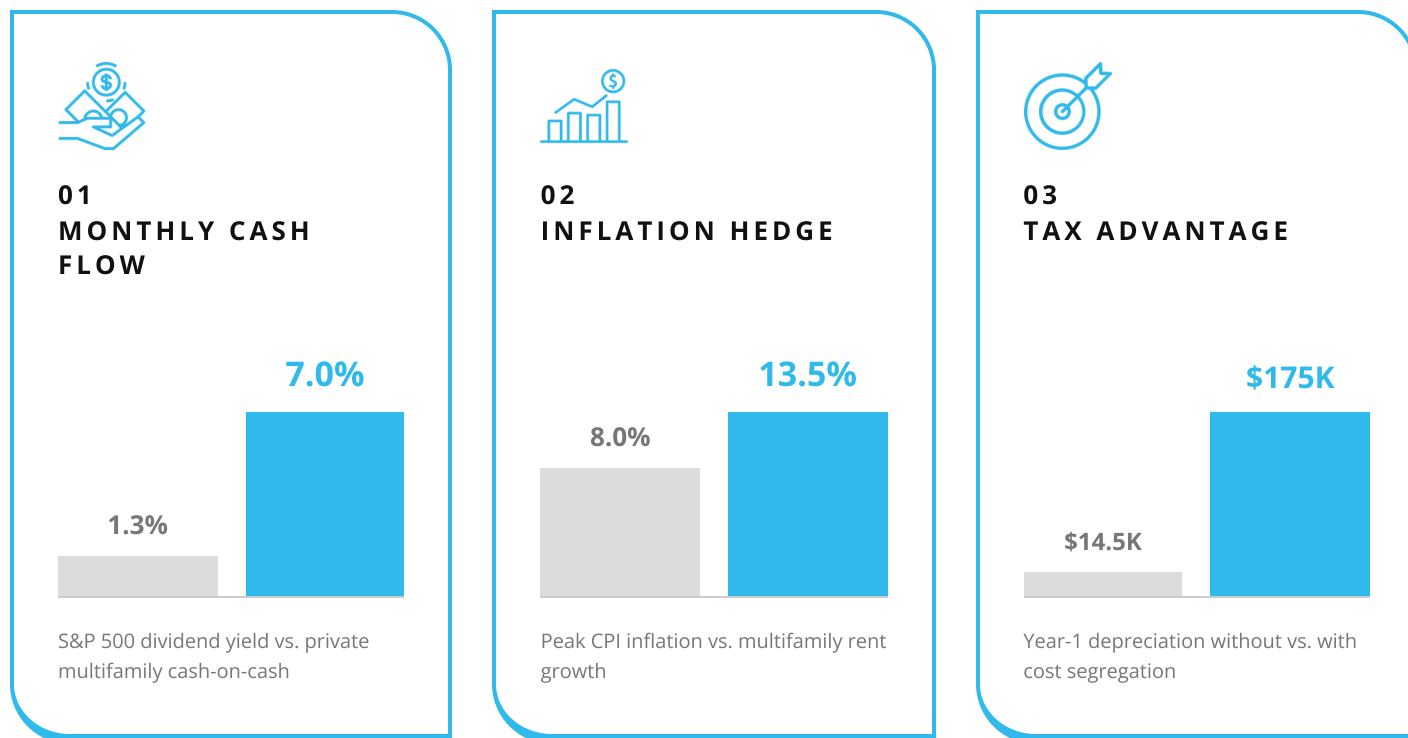
MULTIFAMILY REAL ESTATE AS A PORTFOLIO ANCHOR

For generations, private real estate has been the quiet engine of generational wealth. Among commercial real estate classes, multifamily housing stands out as the most resilient and consistent performer, historically outpacing the S&P 500 on a risk-adjusted basis.⁴

Why does multifamily real estate perform so consistently? Because shelter is a fundamental human need. While demand for office space fluctuates with remote work trends, and retail spaces battle e-commerce, the demand for housing remains structurally robust, especially in high-growth, business-friendly markets.

Public equities are excellent vehicles for capital appreciation, but they are fundamentally flawed as complete wealth management tools.

THREE THINGS REAL ESTATE DOES THAT EQUITIES CANNOT



1. GENERATE MONTHLY CASH FLOW

Most stocks do not pay dividends, and those that do typically yield between 1% and 2%. Investors must sell shares, depleting their principal, to realise gains. Stabilised multifamily real estate generates consistent rental income, allowing sponsors to distribute quarterly cash flow to investors: true passive income without selling the underlying asset.

2. PROVIDE A PHYSICAL INFLATION HEDGE

Inflation destroys the purchasing power of cash and fixed-income bonds. Real estate is a hard asset whose value naturally rises as the cost of labour and building materials increases. Multifamily leases typically turn over annually, allowing operators to adjust rents in real time to match or exceed inflation, preserving purchasing power and driving net operating income higher.⁵

3. OFFER TAX-ADVANTAGED RETURNS

Through depreciation, the IRS allows real estate owners to deduct the “wear and tear” of a property against the income it generates. This often results in investors receiving cash distributions that are entirely tax-deferred on paper.

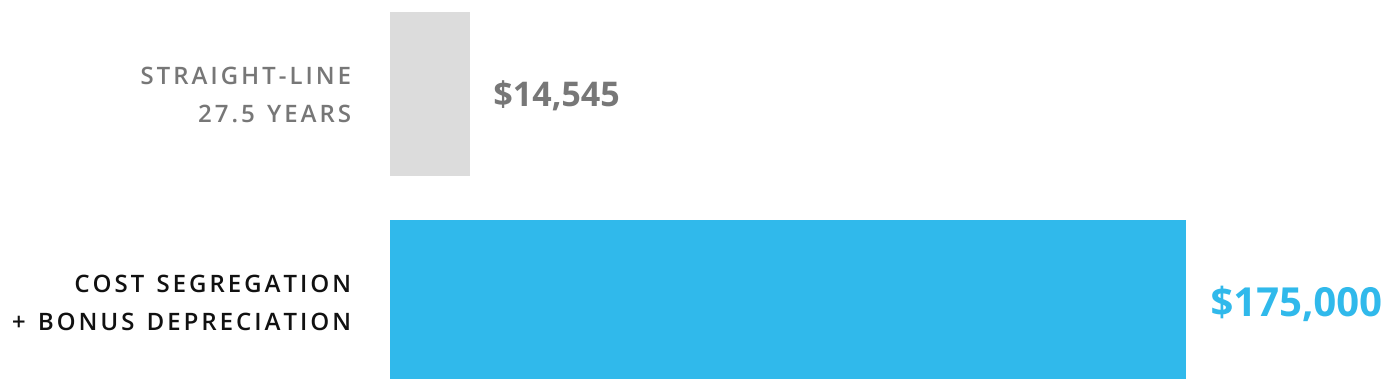
THE POWER OF COST SEGREGATION & BONUS DEPRECIATION

Advanced tax strategies elevate these benefits further. A “cost segregation study” allows sponsors to accelerate the depreciation schedule by reclassifying certain property components (appliances, flooring, fixtures) to be depreciated over 5, 7, or 15 years instead of the standard 27.5 years.⁶

Combined with Bonus Depreciation rules, investors can legally shelter a substantial portion of their invested capital from taxes in Year 1. For an accredited investor in the highest tax bracket, these “paper losses” can offset passive income from other investments, dramatically increasing the true, after-tax return of the deal.

DEPRECIATION SCHEDULE: STANDARD VS. ACCELERATED

Illustrative Year-1 deduction on a \$500,000 investment



Sources: IRS cost segregation guidance; HCVT Tax Advisory. Illustrative only. Consult your tax advisor.

5-15

YEAR SCHEDULES
UNLOCKED

27.5

STANDARD
RESIDENTIAL LIFE

12×

LARGER YEAR-1
DEDUCTION

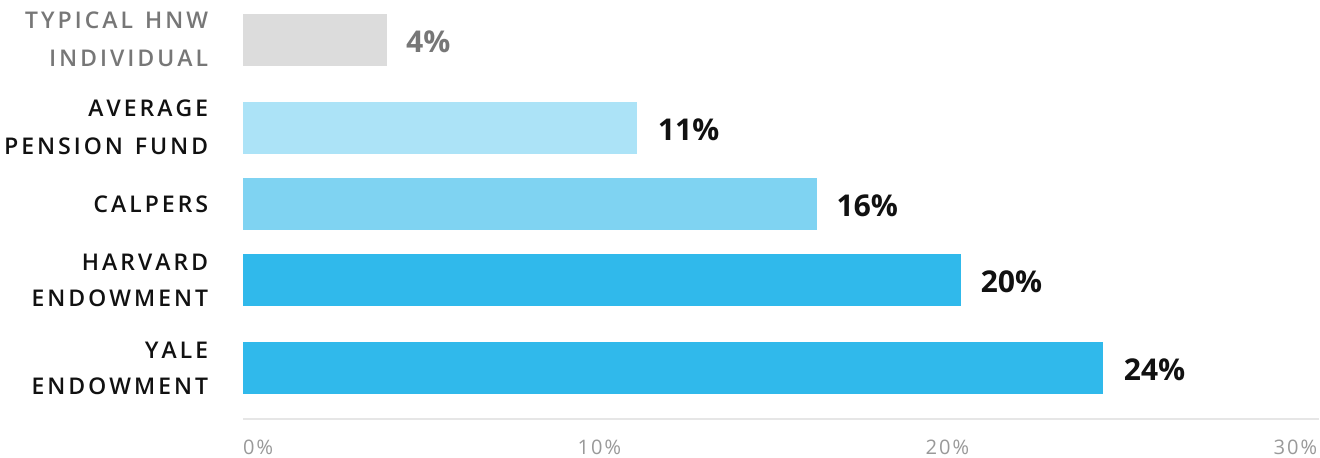
FOLLOWING THE SMART MONEY

If you want to understand the true value of private real estate, look at how the world’s most sophisticated capital allocators build their portfolios. The Yale University Endowment, pioneered by the late David Swensen, famously reduced its reliance on domestic equities in favour of alternative assets, consistently outperforming its peers.⁷

Today, major institutional investors, including state pension funds and university endowments, allocate between 15% and 25% of their multi-billion-dollar portfolios to private real estate.⁸ They do this because the data proves that adding a 20% real estate allocation to a standard stock/bond portfolio significantly improves risk-adjusted returns.

ALLOCATION TO REAL ESTATE

Most high-net-worth individuals are significantly under-allocated



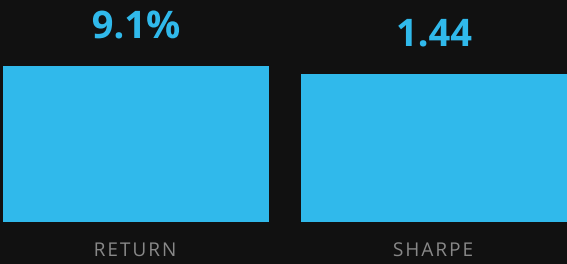
ADDING 20% PRIVATE REAL ESTATE

2000–2021 annualised data: return and Sharpe ratio

TRADITIONAL 60/40



DIVERSIFIED 50/30/20



Sources: NCREIF NFI-ODCE; S&P 500 Total Return Index; Barclays US Aggregate Bond Index; Origin Investments analysis. Yale Investments Office; Harvard Management Company; CalPERS Annual Report; NIRS/Aon (2025).

HOW TO EVALUATE A REAL ESTATE SPONSOR

Understanding the power of multifamily real estate is only the first step. Execution relies entirely on the sponsor, the general partner or operator. For accredited investors, selecting the right sponsor is far more critical than selecting the specific property.

Not all syndicators are created equal. The industry is filled with promoters who excel at marketing but lack operational expertise. When evaluating a sponsor, sophisticated investors rely on five non-negotiable criteria.

THE 5 NON-NEGOTIABLES

1

TRACK RECORD: EXITS, NOT JUST ACQUISITIONS

It is easy to buy real estate when capital is cheap; it is much harder to execute a business plan and sell profitably. Do not be swayed by Assets Under Management alone. Some sponsors claim the full AUM of a property even when they were not the lead sponsor. Look for full-cycle exits. How many investments has the sponsor taken from acquisition to disposition as lead sponsor? Did they meet or exceed projected investor returns? Were they the guarantor or Key Principal on the loan? A record of returning capital with a profit is their true résumé.

2

VERTICAL INTEGRATION

Sponsors who outsource property management and construction to third-party vendors lose control over their two largest expense categories. Vertically integrated sponsors, those who manage the properties and oversee construction in-house, possess a massive structural advantage. They control the resident experience, they manage costs rigorously, and their teams are singularly focused on the asset's performance, not just collecting a management fee.

3

MARKET DISCIPLINE

The best sponsors are not opportunists who chase every hot market. They develop deep expertise in specific geographic markets and asset classes, understand local supply and demand dynamics, maintain relationships with local brokers, and identify off-market opportunities that never reach the open market. This discipline is what allows them to acquire assets at a discount.

4

ALIGNMENT OF INTEREST

How does the sponsor make money? A well-structured deal aligns the sponsor's financial incentives with investors. Look for sponsors who invest their own capital alongside investors, who charge reasonable acquisition and management fees, and whose promote only kicks in after investors have received their preferred return first.

5

TRANSPARENCY & COMMUNICATION

Once you invest, you are a partner in the deal. A trustworthy sponsor provides regular, detailed investor updates, both when things are going well and when challenges arise. They are accessible, they explain their decisions, and they treat investors as sophisticated partners rather than passive capital sources.

PART FIVE · THE OPERATOR

PENN CAPITAL GROUP: A TRACK RECORD BUILT ON EXITS

Penn Capital Group was founded on a simple but powerful thesis: acquire undervalued, income-producing real estate in high-growth markets, execute a disciplined value-add or stabilisation strategy, and return superior risk-adjusted returns to investors.

Penn Capital operates as a vertically integrated real estate investment firm. The team manages every aspect of the investment lifecycle in-house, from acquisition and asset management to property operations and disposition. This structure eliminates the misaligned incentives that plague third-party management arrangements and gives Penn Capital direct control over the two variables that matter most: income and expenses.

1,250+

UNITS OWNED

\$225_{MM}+ASSETS UNDER
MANAGEMENT**\$23_{MM}+**

INVESTOR DISTRIBUTIONS

INVESTMENT PHILOSOPHY



OFF-MARKET ACQUISITION

Sourcing deals through proprietary relationships, avoiding competitive auctions that drive up prices and compress returns.



MARGIN OF SAFETY

Acquiring assets at a discount to appraised value and replacement cost, providing immediate equity and downside protection from day one.



MARKET DISCIPLINE

Focusing on high-growth, business-friendly Sun Belt and secondary markets with strong population and employment tailwinds.



INVESTOR ALIGNMENT

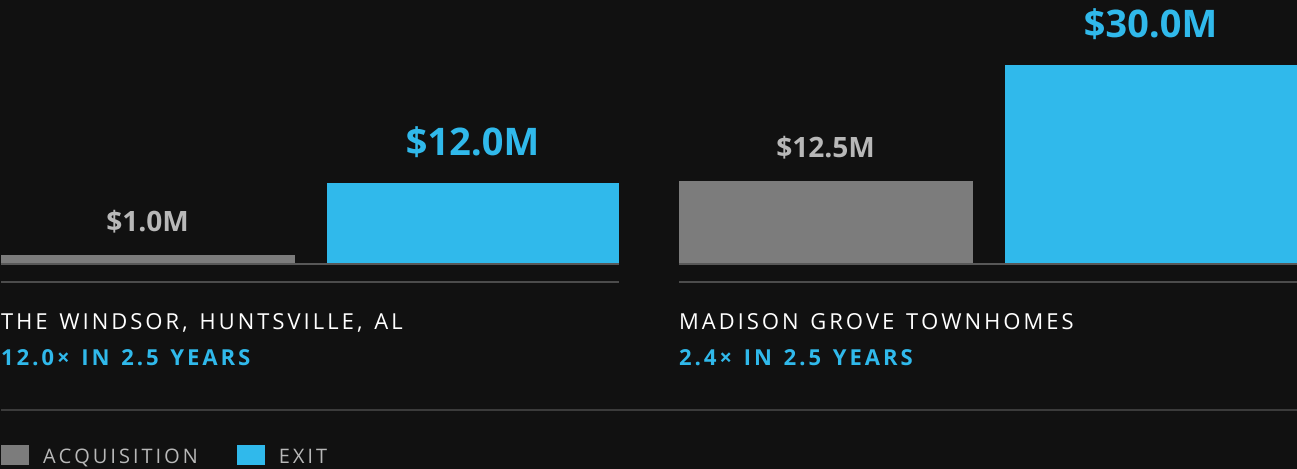
Co-investing alongside limited partners, with performance fees structured so the sponsor only profits meaningfully after investors receive their preferred return.

CASE STUDIES: EXECUTION IN ACTION

Our track record is defined by our exits. We acquire strategically, execute our value-add business plans ruthlessly, and exit when the market dictates maximum value for our investors.

COMPLETED EXIT TRACK RECORD

Acquisition price vs. exit price, \$ millions



TWO EXITS, SIDE BY SIDE



	THE WINDSOR HUNTSVILLE, AL	MADISON GROVE TOWNHOMES
STRATEGY	Acquired off-market; converted to corporate housing	Workforce housing with heavy value-add renovation and operational turnaround
ACQUISITION PRICE	\$1,000,000	\$12,500,000
HOLD PERIOD	2.5 years	2.5 years
EXIT PRICE	\$12,000,000	\$30,000,000
RESULT	Massive equity multiple generated through repositioning	More than doubled asset value through forced appreciation

Source: Penn Capital Group investor materials. Past performance does not guarantee future results, as every opportunity is unique.

YOUR NEXT STEP · NOW OPEN

135 INDIANA

LUBBOCK, TEXAS | 204-UNIT CLASS A MULTIFAMILY

Our recent offering perfectly encapsulates the Penn Capital investment thesis. We have secured a stabilised, Class A multifamily asset in one of Texas's most robust economic engines, acquired at a significant discount to replacement cost.

DEAL AT A GLANCE

204

UNITS

97%+

OCCUPIED

18%

BELOW APPRAISAL

10%

FIXED PREFERRED
(CLASS B)

20%+

TARGET ANNUAL RETURN
(CLASS C)

1.8×

EQUITY MULTIPLE
(4-YEAR TARGET)

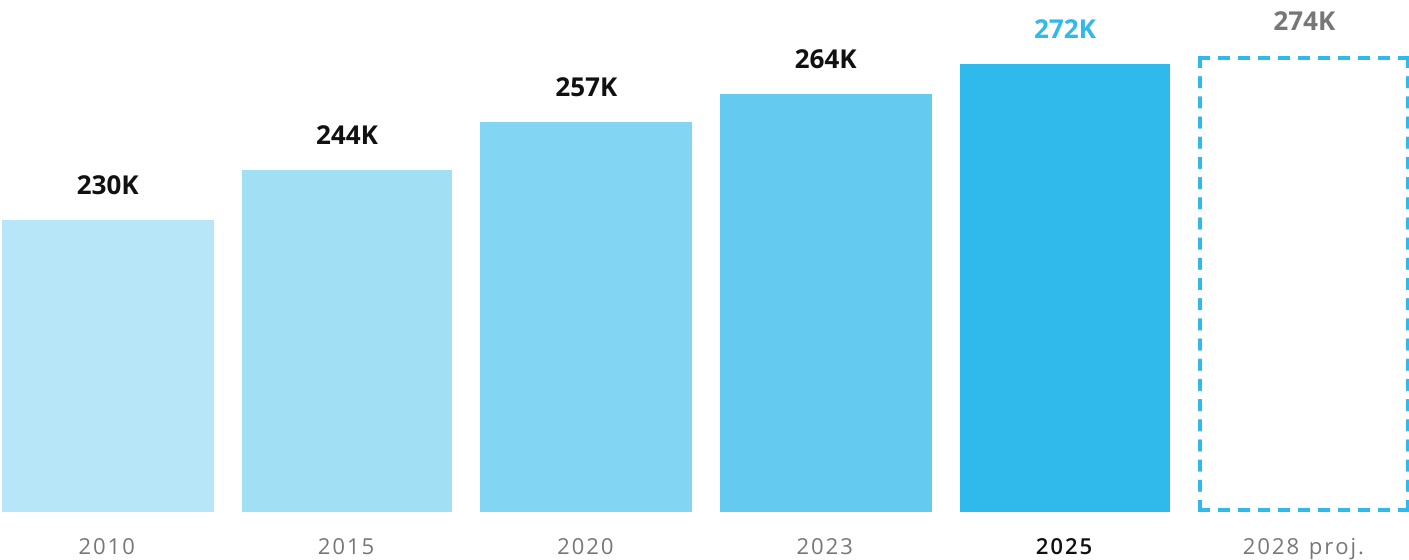
Source: Penn Capital Group, 135 Indiana investor summary. Projections are targets, not guarantees.

WHY LUBBOCK, TEXAS?

Lubbock is not a speculative market; it is an economic fortress. It is anchored by Texas Tech University and a massive healthcare sector. The city’s population hit 272,100 in 2025, growing faster than Austin, driven by the addition of 14,200 jobs, an 8.89% growth rate, in a single year.⁹ With major infrastructure expansions like Loop 88 and the arrival of global manufacturers like Leprino Foods, Lubbock offers permanent, recession-resistant rental demand.

POPULATION GROWTH

Lubbock MSA, thousands



EMPLOYMENT

+8.89% YoY

14,200 jobs added in a single year. Total employment is near 141,000.

TEXAS TECH ANCHOR EFFECT

\$19.2B SYSTEM ECONOMIC IMPACT **40K** STUDENT ENROLMENT

Sources: Lubbock EDA; Dallas Fed Heart of Texas; Texas Tech University System Economic Impact Report (2025); DataUSA; US Census Bureau.

THE DEAL

IMMEDIATE EQUITY & MARGIN OF SAFETY

We acquired 135 Indiana off-market and secured it in November 2025 at 18% below its April 2025 appraised value. For our investors, this means immediate equity on day one. Because the property is already 97%+ occupied, this is not a risky development or turnaround play. It is a stabilised, cash-flowing asset from the moment we close.

CUSTOMISED RETURNS

Two distinct equity classes let you choose the return profile that fits your portfolio.

CLASS B

THE INCOME PLAY

10%

FIXED PREFERRED RETURN

For investors seeking predictable cash flow, paid out via steady quarterly or monthly distributions.

CLASS C

THE GROWTH PLAY

20%+

TARGET ANNUALISED RETURN · 1.8×
EQUITY MULTIPLE

For investors seeking maximum wealth accumulation over a four-year hold, capturing the upside of the property's appreciation.

MINIMUM INVESTMENT \$50,000 · ACCREDITED INVESTORS ONLY · SUBJECT TO AVAILABILITY

READY TO ANCHOR YOUR PORTFOLIO?

Stop letting Wall Street dictate your net worth. Review the full financials, consider the tax benefits, and discover how 135 Indiana can help provide the true diversification your portfolio needs.

SCHEDULE A CALL

penncapitalgroup.com info@penncapitalgroup.com

REFERENCES & DATA SOURCES

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- 9 Texas Real Estate Source. "Lubbock Economy Guide: Jobs, Growth, and Business" (2025); Lubbock Economic Development Alliance.

DISCLAIMER

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