



Estimated Income Fund I Equity:

Month/Year	November 2015	December 2015
Estimated Value of Fund	\$68,359,000	\$77,158,000
Third Party Debt	\$30,408,000	\$37,757,000
Estimated Total Equity of Fund	\$37,931,000	\$39,401,000
Members' Invested Capital (1A, 1B, 1C)	\$30,450,000	\$32,550,000

As of December 31, 2015

Strategic Holdings
is wishing you a
Happy New Year !



THE CEO'S DESK

Dear Investors,

We thank you for your
trust in referring your
friends and family to us.

Happy New Year! It is amazing that 2015 has flown by us and we are now entering 2016. In 2015, a large portion of the financial news was dedicated to when and by how much the Federal Open Market Committee (aka "Yellen & Co.") would raise the federal funds rate. Well it finally happened. The federal funds rate was raised by a whopping 0.25% on December 15th, which is the first increase in almost ten years. The rate rise signals a stronger economy and the start of a return to monetary normalcy.

Inflation averaged 1.3% the last 12 months. According to Yellen, the unhealthy lack of inflation is

"transitory" and "idiosyncratic". Apartment rents can be a hedge against inflation as rents tend to increase with wage growth and wage growth is an integral component of core inflation.

The day before Christmas, the 10 year treasury closed at 2.25% versus 2.27% on December 24, 2014, having been in a range of about 82 basis points in 2015 versus. In 2015, the high was 2.50% and the low was 1.68%. In 2014, the high was 3.01% and the low 2.07%. Investors submitted bids for 2.8 times the almost \$2 trillion of notes and bonds that the U.S. offered in 2015, which is slightly lower than 2014.

This is indicative that the fall-out from the recession may be fading. In addition, crude oil dropped from approximately \$55/barrel to \$37/barrel during the same time period. Lower crude prices create more disposable income for consumers which should translate into increased consumption, economic growth, and hopefully higher rents on our apartment units.

Is it time to pop the cork on the champagne bottle? Not yet, but it should be relatively soon as Strategic Holdings continues to reposition its current portfolio of multi-family properties and prove its theory that if we reposition, manage, and charge

market-rates, that we should obtain market rate occupancy and market rate property values. This process is less time consuming for moderately distressed properties compared to severely distressed ones, but the potential upside is higher for the severely distressed ones.

Notable accomplishments in 2015: We lowered insurance costs on our portfolio by approximately 40%, with higher levels of coverage, utilizing a group policy obtained by a highly reputable company; we obtained a \$20.5 million dollar construction loan commitment (anticipated closing January 7, 2016) from a multi-billion dollar real estate company; we passed the Fund I ballot creating the equity participating 1-D Membership Shares (among other changes); we finished rehabilitating and stabilizing the remaining apartments units which were moderately distressed (defined as around 30% vacant at time of acquisition) at the time of acquisition; and, we raised sufficient equity in Fund I to complete the refurbishment of our entire real estate portfolio and ended the year with approximately \$4 million dollars in surplus liquidity.

Goals for 2016: 1) Obtain \$17 million dollars in cash-out refinance loans (non-recourse) secured by some of our stabilized properties; 2) complete the refurbishment of our existing inventory of multi-family units by November 2016; acquire \$50 to \$60 million dollars of stabilized assets with a value-add upside and a pro forma capitalization rate ranging between 8.0 to 8.5%; 3) potentially invest \$15 million dollars in bridge loans secured by income producing properties at a low leverage price point; 4) sell an additional \$3.9 million dollars in 1-D Membership Units; and, 5) sell \$20 million dollars in 1-A shares (lowest risk position). We greatly appreciate referrals of potential investors who may be interested in the Series 1-A. Series 1-A pays a fixed preferred rate of 8.5% and is the safest position among investors. The proceeds will be utilized to acquire new investments. In the next newsletter, we intend to provide an updated five year pro forma of our existing real estate portfolio and write about the 18 Year Real Estate cycle.

Ask Patty



EVP of Investor Relations

The Estimated Value of Fund I as of December 31 increased by approx 8.7 million dollars. This is because of the repatriation of Fund II assets that transferred to Fund I as of December 31, 2015. There was a ballot vote to wind-down the Growth Fund II which was passed by its members. The repatriation increased our Estimated Total Equity of Fund I by another 2 million dollars.

Growth Fund II members have the option to roll their funds back into Fund 1. If you have not already designated your transfer, or have any questions, please call me at 805-764-5128.