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Bailard Wealth Management
Quarterly Review of Economic and Market Developments*

Q3 2018

Inside Q3, 2018:

**Please see page 19 for important disclosures.*

Q&A: WITH REAL ESTATE

Constructing a resilient real estate property portfolio amidst normalizing returns

Tess Gruenstein and James Pinkerton, both Senior Vice Presidents of Acquisitions and Portfolio Management, share their first-hand insights on the state of investment opportunities, performance, valuations, and exit strategies in real estate.

Tess, how has the flow of new real estate investment opportunities been this year?

The institutional real estate market has continued to be quite active. There has been a heavy flow of new investors eager to enter the market, which means that there has been plenty of capital chasing a finite number of investment opportunities. To put it in perspective, in 2017 there were $224 billion worth of real estate transactions completed across all property types in the United States;[1] in the first half of 2018, transaction volumes are up 3.4%.[2] Bailard has continued to see an abundance of capital searching for both value add opportunities (investments with the ability to increase both cash flow and property value through leasing, renovation, or fixing broken management) and core opportunities (typically well-leased stable cash-flowing properties with minimal opportunity to impact income or value). Yields on these two different property investment strategies have continued to be very compressed.

While there is no shortage of capital, at this stage in the cycle the "obvious" opportunities are few and far between. Bailard has traditionally shunned the herd mentality of many institutional real estate investors. Instead, Bailard has focused on finding modest-sized ($15 to $60 million) investment opportunities in "secondary" cities like Chicago, Minneapolis, St. Louis, Phoenix, Baltimore, Atlanta, and Milwaukee, where it believes there is still good relative value and an opportunity for substantially higher risk-adjusted returns. These cities all have solid/dynamic good economic drivers and steady fundamentals that provide the foundation for compelling real estate investment opportunities.

Similarly, there has been an industry trend towards sourcing deals in alternative real estate strategies: data centers, self-storage, student housing,

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and senior housing. These property types typically have higher yields and require more specialty management, which is outside of the capabilities of many managers. There has also been consolidation on the deal flow side, with a stream of large, national portfolio transactions sold to investors who needed to deploy a large amount of capital quickly. Anecdotally, during 2018 there have been a number of opportunities that the Bailard real estate team pursued that have "returned to the market" for one of two reasons:

- Either the Seller didn't receive any bids that met its expectations and the property was pulled from the market, only to be brought back out several months later.
- A Buyer did offer a price satisfactory to the Seller resulting in the asset being removed from the market. However, for some reason (e.g., Buyer re-trade after due diligence), the Seller subsequently pulled the asset from the market only to re-expose it later in hopes of a successful execution the second time around.

This is a sign of a "skittish" market, which is understandable given that the economy and real estate are relatively "late" in the cycle. However, it is somewhat counter-intuitive given how much capital (both equity and debt) is lined up and ready to get into real estate.

Valuations seem to be approaching, and in some markets exceeding, high-water marks set in 2007/2008. Given this, James, how is Bailard positioning for downside protection?

There is little doubt that valuations in Gateway markets have blown past high-water marks set in the last cycle. This has been largely driven by the "herd" of domestic and foreign institutional buyers competing to own properties in and around the urban core of a few highly-coveted Gateway markets, including San Francisco, Seattle, Los Angeles, Chicago, New York, Boston, and Washington, DC. Notwithstanding the high prices and historically low yields in these markets, yields in a number of primary and secondary markets across the country are still well above the risk free-rate, which was not the case prior to the Great Financial Crisis ("GFC").

Bailard has strategically steered clear of making new investments in most of the Gateway markets, instead electing to spend more time and energy sourcing investment opportunities in "overlooked and under loved" markets it deems to offer solid real estate fundamentals, higher risk adjusted yields, and more downside protection. Bailard's exposure to the Heartland economic cluster—including Chicago, Minneapolis, Milwaukee, St. Louis, and Columbus—is a good example of this. Bailard believes these markets present the opportunity for greater risk-adjusted returns. In addition, the downside risk is likely to be materially lower than in the Gateways, where yields have much further to move (on a percentage basis) than they do in the Heartland markets.

In addition to market selection, active asset management greatly aids the ability to drive potential appreciation and preserve value. Bailard's hands-on asset and portfolio management approach and its mix of value-add/opportunistic investments means that Bailard has many levers it can pull when seeking to drive value and/or minimize damage throughout varying market cycles.

Further, private equity real estate has enjoyed a long unbroken run of positive quarterly returns since the end of the Great Financial Crisis. James, what are your thoughts on where performance has been, where it is currently, and where it's going?

Private real estate, as measured by the NCREIF Open-end Diversified Core Equity Index ("ODCE") has posted a spectacular string of positive returns in the eight years since rebounding from the GFC. As the table below shows, since the second quarter of 2010, the ODCE is up 148%. In comparison, the Bailard Real Estate Fund advanced 177% over the same time period. During the post-GFC expansion, the average quarterly return for the ODCE was 2.8% (with a low of 1.5% and a high of 5.2%), while the average quarterly return for Bailard's Fund has been 3.1% (with a low of 0.4% and a

Total Returns, Net of Fee, After the GFC

	NCREIF ODCE	Bailard Real Estate Fund
Post-GFC Expansion*	2Q2010 - 2Q2018	2Q2010 - 2Q2018
Quarters	33	33
Total Return	147.7%	176.8%
Annualized Total Return	11.6%	13.1%

Sources: Bailard, NCREIF.

**While certain property types and geographic markets continued to experience valuation declines through the end of 2010, the second quarter was chosen as a starting point as it was the first quarter in which both the ODCE and Bailard Real Estate Fund began their positive returns. The ODCE began its series of positive returns one quarter earlier (in Q1, 2010).*

Real estate strategies have significant risks and are not appropriate for all investors. ***Past performance is no indication of future results.*** *All investments have the risk of loss. Please see page 19 for additional disclosures.*

high of 7.9%). Over the last eight quarters (through June 30, 2018), the ODCE has averaged 1.7% per quarter and Bailard's Fund has averaged 2.8% per quarter.

The ODCE's recent quarterly return average is down 39% from its post-GFC quarterly average (from 2.8% to 1.7%), while the Fund's recent average is down 10% (from 3.1% to 2.8%) for the same period. Clearly, both ODCE and the Bailard Fund returns have been regressing to the mean. Though returns are down, they have still been positive and in line with historical averages. However, Bailard does not believe that the recent run of below-cycle-average quarterly returns is any reason for alarm. The returns enjoyed by private real estate in the five years immediately following the GFC were spectacular, but unsustainable. The returns being achieved in recent quarters are more "normal" and sustainable.

As long as the broader U.S. economy is growing, creating jobs and generating household formation, even at a moderate pace, private real estate returns are likely to continue to be positive. While yield rates have tightened and values have increased, a large portion of performance in recent quarters is attributable to income return. This suggests the potential for the current level of performance to continue, subject to a significant slowdown or economic contraction. Though we are in the ninth year of the current cycle, economic expansions don't simply die of old age.

Ultimately real estate investors need to "exit" and therefore must have a plan for the sale of each property. Given that Bailard's Fund is an open-end fund, it is able to be flexible in the timing of disposing of portfolio assets. Tess, how does Bailard seek to minimize the negative impact of an economic downturn on its real estate portfolio?

The Bailard team spends considerable time and effort creating a business plan for each asset at acquisition and then subsequently on an annual basis. A significant part of the business plan is a careful articulation of exit strategy process and timing. Bailard considers a wide range of property-specific, real estate market, capital markets, micro-economic, and macro-economic factors when identifying various exit scenarios. In this way Bailard can test a number of factors and their impact on the property and its return profile. While every asset has an expected "hold" period at acquisition (typically five to ten years), Bailard is always prepared to own the asset for a shorter or longer period of time to be responsive to property and market conditions.

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Since Bailard's exit timing must by definition, be flexible, the Bailard team fastidiously adheres to a handful of core investment and management principles: focus on real estate in solid, dynamic locations, do not buy a property for more than it would cost to replace it, and only utilize moderate leverage (typically 50% to 60% Loan-to-Value).

As noted, Bailard's open-end fund structure provides important flexibility and without a forced exit date. This is in sharp contrast to a closed-end fund structure, which has a predefined investment period and every property must be sold by the end of that time period. It makes no difference if the property's business plan has been completed and/or if the real estate or capital markets are receptive to the asset: when the closed-end fund hits the end of its defined life, every asset will be sold. As long as Bailard adheres to its acquisition and management principles—and barring extreme events—Bailard should never have to "fire sale" a property. The open-end structure affords the opportunity and ability to ride out an economic downturn and wait for the markets to correct themselves in due course.

1 JLL Global Research, "Global Market Perspective", February 2018.

2 JLL Research Report, "Investment Outlook H1 2018".

The Bailard Real Estate Investment Trust, Inc. (the "Bailard Real Estate Fund " or the "Fund") invests primarily in real estate. As a result, an investment in the Fund entails significant risks that are customarily associated with the development and ownership of income-producing real estate, including illiquidity, changes in supply and demand, and inexact valuation. The Fund's shares fluctuate in value and may be illiquid due to a lack of redemption, the lack of a secondary market and restrictions on transfer. Fees and expenses may offset the return on the investment. The Fund may be leveraged. Investors may lose all or a substantial portion of their investment. No guarantee or representation is made that the Fund will achieve its investment objectives. For a more thorough discussion of the risks involved in making an investment in the Fund, please refer to its Offering Memorandum. Please see page 19 for additional disclosures.

U.S. ECONOMY

Headwinds for Growth Persist

The second quarter's final Gross Domestic Product ("GDP") came in at 4.2% annualized, unchanged from the previous quarter and up 2.9% year-over-year. The recently-ended third quarter shows consensus expectations of increases ranging from 2.25% to 4.2%. The third quarter could be toward the upper end of expectations, supported by inventory accumulation, net exports, capital expenditures ("CAPEX"), and the residual impact of tax cuts. However, that could reflect a peak, as rebuilding from the 2017 hurricanes, tax cuts, and the front-loading of demand ahead of tariffs helped boost growth over the last year. Economic expectations for the full year are for growth to reach 2.9%. This is still well below the longer-term trend of 3.8%. All this talk of a boom is misleading; growth is better and picking up from a low level. The question lies in its sustainability.

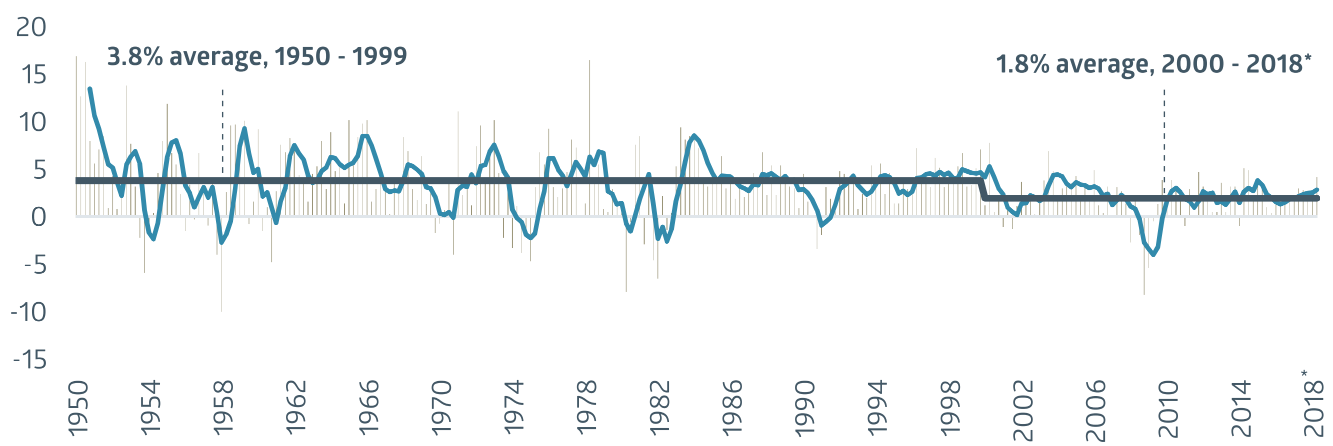
All this talk of a boom is misleading; growth is better and picking up from a low level. The question lies in its sustainability.

Real household weekly earnings have been growing at less than 1.0% and—with employment growth rising at 1.6% annualized—income-based consumption should rise at a 2.5% pace. While consumer income growth has been sluggish, consumers have taken on more debt and saved less. Without debt accumulation, the U.S. and global economy would be little changed. Since 2000, total U.S. debt has increased by $47 trillion dollars and nominal GDP increased by $10 trillion. We have been in a debt-driven economy for decades. Debt has been easily absorbed due to aggressive balance sheet expansion by central banks and the management of interest rates to near-zero. With central banks beginning to cut back their balance sheets and interest rates rising, this tailwind is turning into a headwind. We are clearly seeing a slowdown in housing activity and auto sales.

Monetary policy showing its impact

In September and as expected, the Federal Reserve (the "Fed") raised the Federal Funds rate by 25 basis points to 2.25% (a basis point, or "bp", is 0.01%). The Federal Open Market Committee ("FOMC") plans to

Real Economic Growth (RGDP, %), 1950 - 2018 Q2



*Source: Bloomberg. *Data through the second quarter of 2018.*

raise the Fed Funds rate four to five more times (to 3.5%) over the next year. Investors seem to be expecting slower growth, contained inflation, or a financial market reaction that takes the Fed off the tightening path. Unfortunately, renewed quantitative easing (the large-scale asset purchases by central banks, or "QE") could mean the economy will return to slow growth or worse, that the Fed has tightened to the point where the equity markets break.

Both short and long U.S. Treasury rates have been rising in tandem, as the global monetary system shifts from massive stimulus to restraint. Tighter Fed policy could trigger numerous potential impacts to the domestic economy, including:

- Corporations' lowered debt servicing ability that generally reduces other spending or CAPEX.
- Corporate capital expenditures are dependent on borrowing costs. Higher borrowing costs generally lead to lower CAPEX.
- Higher borrowing costs should lead to lower margins for corporations.
- Rising rates should continue to slow housing activity and remove that small contribution to GDP. Rising rates mean higher mortgage payments.
- As interest rates rise, so do variable interest rate payments.
- Rising interest rates can also put derivatives and credit markets at risk.
- Rising risk of default on debt service should weigh on banks.
- The "stocks are cheap because interest rates are low" argument is being removed. Short-term notes are now yielding more than stock dividends and competition for investor dollars is heating up.
- Corporate share buyback plans and dividend issuance have been supported by cheap debt. This is changing. Without buybacks, the artificial earning boost from reducing outstanding shares should fade.
- The deficit-to-GDP ratio and Fed's debt rollover are spiking and will add huge supply to the bond market.

One thing that could support the equity market and the economy is strong confidence. Confident investors and consumers buy stocks and spend. Since the 2016 election, confidence has risen sharply as taxes and regulations have been cut. The marked increase has been seen across age and racial groups. Further, small and large business confidence has accelerated and CEO confidence has remained strong. The best confidence indicator is the S&P 500 Index, up 43% since the election through the third quarter.

INTERNATIONAL ECONOMIES

Foreign Markets Not Immune from the Slow Growth Trend

CHINA

China's GDP picked up in the second quarter, rising 7.2% annualized after being revised down to 5.2% for the previous quarter. Year-over-year growth has been relatively flat, at 6.7%, over the last three years. The Chinese government is looking for 6.5% growth this year. Tariffs are likely to weaken growth, but a more stimulative monetary policy could offset the negative impact of tariffs. The decline in the Chinese yuan is helping to lessen the impact of tariffs on prices, bank lending is picking up from recent lows, and interest rates appear to be rolling over.

During the third quarter, the Trump Administration followed tariffs on aluminum and steel with a 10% tariff on $200 billion in Chinese imports to the U.S. At year end, the tariff increases to 25%. The Administration is further considering tariffs on the remainder of Chinese imports. China retaliated by imposing a 10% tariff on $60 billion of U.S. exports to China.

While freer/fairer trade deals have been reached with South Korea, Mexico, and Canada, a deal with China may be more difficult. The major sticking point surrounds intellectual property rights. China is widely known for industrial espionage and forcing U.S. business partners to divulge intellectual property. Retaliation is taking place with traded goods to try to force more Chinese regulatory and capital reform.

> Despite this massive quantitative easing, Japan's inflation remains low and economic activity weak by historical standards.

JAPAN

Japan's GDP—after turning down 0.8% annualized in the first quarter—rebounded to 2.8% in the second quarter on the back of stronger nonresidential, capital investment. Capital investment should remain healthy approaching the 2020 Summer Olympics in Tokyo. Real household income and spending (year-over-year ending June 30) are down 0.8% and up only 0.1%, respectively; this is a weak base for Japan's economic growth. Consumer spending could surge ahead of an increase in the value added tax in October, 2019.

Other sectors of the Japanese economy also remain weak, with housing starts falling at a 10.3% annualized rate in the second quarter, real industrial production up only 0.6% year-over-year, and the inventory-to-sales ratio almost back to its cyclical high. In addition, the trade surplus has turned to a deficit again and should be a drag on growth. Japan's trade balance will also be negatively affected by rising oil prices given Japan's dependence on energy imports. However, the Japanese yen has weakened versus the U.S. dollar and should put Japan in a more competitive position, helping offset the negative impact from tariffs.

Aggressive central bank policy

The Bank of Japan ("BOJ") has maintained an aggressive monetary policy, through negative interest rates and substantial asset purchases. Despite this massive quantitative easing, Japan's inflation remains low and economic activity weak by historical standards. BOJ governor Haruhiko Kuroda reassured investors that the BOJ "will fully counter speculation among market participants that the bank is heading toward an early exit or an increase in rates." Japan continues to be impacted by deflationary psychology and a declining population. The medium-term prospects remain weak, due largely to debt and a shrinking labor force.

EUROPE

Second quarter economic activity in Europe was unchanged from the previous quarter, at 1.6% annualized. The slowdown that started in the first quarter has yielded a year-over-year growth rate of 2.1% as of June 30. Weaker activity can be seen in consumer spending, the purchasing manager index, industrial production, and net exports.

In addition to slower growth, Europe continues to be faced with a number of problems:

- Trade issues with the U.S., while on the right path, have yet to be fully resolved. The European Union ("EU") has agreed to import more soybeans and liquefied natural gas. Both Europe and the U.S. indicated they will work toward decreasing industrial tariffs and Europe agreed to reduce obstacles to U.S. medical devices. According to President Trump and Jean Claude Juncker (President of the European Commission), the foundation is being set for "zero tariffs, zero barriers, and zero subsidies on non-auto industrial goods."
- The political environment in Europe is strained by the refugee crisis and calls for greater sovereignty away from Brussels' dominance. The one thing that has kept the EU together is Germany's ability to strong arm everyone into line; that may be coming to an end as Angela Merkel faces political risks of her own.
- The stop/start Brexit negotiation between the United Kingdom and the EU remains unresolved, as the March 29, 2019 date for leaving the EU looms. Unless all 28 EU countries agree to an extension, the UK will be governed by British law. Brexit is creating uncertainty for businesses and investors.
- In Italy, the strange coalition between the populist Five Star Movement and the industrial-based Northern League has one thing in common: their mutual distain for Brussels and the EU. The two parties are calling for debt forgiveness and say they are considering leaving the euro. Other than that, there is little to coalesce these groups and there is no unifying vision.
- It is not clear how successful Italy would be outside the EU, given its lack of fiscal discipline in the past and the fact that the Italian lira would likely be a weak currency. Italian banks would likely experience severe liquidity problems if the European Central Bank ("ECB") withdrew its support for Italy's financial system. The ECB has essentially been funding the Italian government's deficits at near-zero interest rates for years. The Italian central bank is indebted to the ECB for £447 billion.

FIXED INCOME

Interest Rates Higher as the Fed Reduces its Balance Sheet

Interest rates continued to climb in the third quarter and into the start of the fourth. In September, the Fed raised the Federal Funds rate for the eighth time since 2015. The gap between yields on short- and long-term Treasuries narrowed to an eleven-year low during the quarter. This narrow gap reflects investors' expectations that the economy will grow relatively slowly and inflation will remain moderate while the Fed keeps raising the Funds rate. Two-Year U.S. Treasury rates rose 0.29% to end the third quarter at 2.82%, a ten-year high. Ten-year U.S. Treasury rates also increased and, one week into the fourth quarter, they are now at 3.24%, a seven-year high.

It is rare for a bond index to post a full year of negative returns; normally, income flows offset price declines. There have only been three times since 1980 when the Barclay's U.S. Aggregate Bond Index (a broadly diversified index that includes Treasuries, agencies, corporates, and mortgage-backed securities) suffered a negative full calendar year return. However—with a mere 0.02% gain in the third quarter and a 1.60% decline over first three quarters of the year—2018 may also be a negative return year. Short-dated corporate bonds fared better than government bonds. The BofA Merrill Lynch 1-10 Year U.S. Corporate Index gained 0.83% for the quarter, bringing year-to-date returns to -0.77%. The Barclay's 1-15 Year Municipal Blend index lost 0.06%, reducing year-to-date returns to 0.02%.

Federal Reserve Monetary Policy

2.25%
after an eighth increase

The U.S. economy has been relatively strong this year, with growth bolstered by the extensive tax cuts. The unemployment rate is at its lowest level since 1969. Although inflation and, importantly, wages have increased, they remain at relatively moderate levels. With the Fed Funds rate now at 2.25%, the Fed eliminated the word "accommodative" from its most recent FOMC statement. Fed Chairman Powell recently spooked investors by commenting that the Fed may allow the funds rate to move above the neutral rate (the rate where the risk of inflation and slowing economic growth are balanced).

With the yield curve (the difference between long and short-dated Treasuries) being so flat, there has been much discussion regarding possible yield curve inversion (where short-maturity interest rates are higher than long-maturity rates). An inverted yield curve has preceded all recessions in recent economic history. However, whether an inverted yield curve causes a recession is far less clear. Generally, longer-dated rates move lower than shorter-dated rates when investors expect rates to decline in the future. Fed Chairman Powell is more concerned about what the neutral rate of interest is than if the yield curve inverts. Powell views the shape of the curve as more of a market-based assessment of how far the Fed is or is not from a rate level that enables the economy to achieve full employment and price stability. There is a group that believes the large amounts of excess reserves currently being held in our banking system may mute the impact of higher rates on credit conditions, since banks have plenty of lending capability. This could enable the economy to continue to grow, even if the yield curve inverts.

The Fed has been re-normalizing, or decreasing, its massive balance sheet of Treasury- and mortgage-backed debt amassed during its quantitative tightening. In October, the Fed should reach its $50 billion monthly cap of having bonds roll off its balance sheet (i.e., not being reinvested), and remain at this level for the foreseeable future. Under the current schedule, the Fed will reduce its originally $4.5 trillion balance sheet by $420 billion this year and another $600 billion next year. The Fed is one of the few central banks around the world reducing its assets. Now the ECB and BOJ—who are both still purchasing securities—have more total assets than the Fed. The Fed's lower demand for bonds coupled with heavy supply are two of the reasons why intermediate and long-term interest rates have moved higher.

Bond Market Recap

Most of the impact from the Trump tax cuts has been felt, and growth is expected to slow next year. The Administration's tariffs may also reduce economic growth (which is positive for bond prices), but higher tariffs may also cause import inflation (which is negative for bond prices). Corporate profits should remain healthy, but are expected to decelerate along with slower overall growth. Weaker profits could lead to some spread widening between corporate and Treasury bonds.

This year, municipal bond prices have been more stable than taxable bond prices as the cap on State and Local Income Taxes (SALT) deductions have made municipal bonds one of the few remaining tax-advantaged options available. Several states passed ‘workaround’ legislation intended to reduce the impact of the limited deductibility of SALT. Four states—CT, NJ, NY, and OR—created charitable funds for which contributions count as a credit against state tax liabilities. However, the IRS has now curtailed the effectiveness of such programs. California Governor Jerry Brown vetoed such a program, most likely in anticipation of these rulings by the IRS.

Bond Market Outlook

Interest rates have increased dramatically since their mid-2016 lows. Heavy issuance of U.S. Treasuries, coupled with reduced demand by the Federal Reserve, are among the many factors behind the rise in interest rates. Foreign demand for U.S. bonds has declined recently as increased hedging costs reduced their profitability. However, negative local sovereign bond yields for many foreign buyers still support some demand. As more central banks around the world move to more normal (from stimulative) monetary policies, rates may come under further pressure to rise moderately. Decelerating global economic growth should keep a lid on the magnitude of further rate increases, but we remain cautious in the near term.

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DOMESTIC EQUITIES

Looking for Signs of What May (or May Not) be the Longest Bull Market

The U.S. stock market moved higher in the third quarter and, in what has become a familiar refrain, once again larger stocks did better than small, and growth stocks did better than value. Technology stocks remained on a tear, with the S&P North American Technology Index up 8.9% for the period.

The longest bull market?

August 22, 2018 may have marked the record for the longest bull market in the S&P 500 Index's history, but only so long as one defines a bull market as any extended stock market price rise without a 20% correction. If the economic correction experienced in 1990 is rounded down from -19.92% to -20.00%, then this is currently in the longest bull market ever. Without rounding, then there are still over 1,000 more days until the record would be set.

Whether the current bull market is the longest or not is really not the issue. What is important is what happens next. While stocks are not currently cheap, strong earnings gains in the first nine months of 2018 have actually made them less expensive now than they were at the start of the year.

S&P 500 Index Return Decomposition, Price Change Only

	Forward Price/ Earnings	x	Forward Earnings per Share	=	S&P 500
Dec. 29, 2017	20.0x	x	$134.02	=	2,673.61
Sept. 28, 2018	18.1x	x	$161.35	=	2,913.98
% Change	-9.5%	x	20.4%	=	9.0%

Source: Credit Suisse.
Past performance is no indication of future results. *All investments have the risk of loss.*

We will soon see how third quarter earnings play out, and how investors react to those reports. Concern about the future may further compress Price/Earnings multiples, but if earnings continue to grow, they should act as a support for stock prices.

> The more interest rates rise, the shorter investors' time frames become, and the less attractive stocks appear.

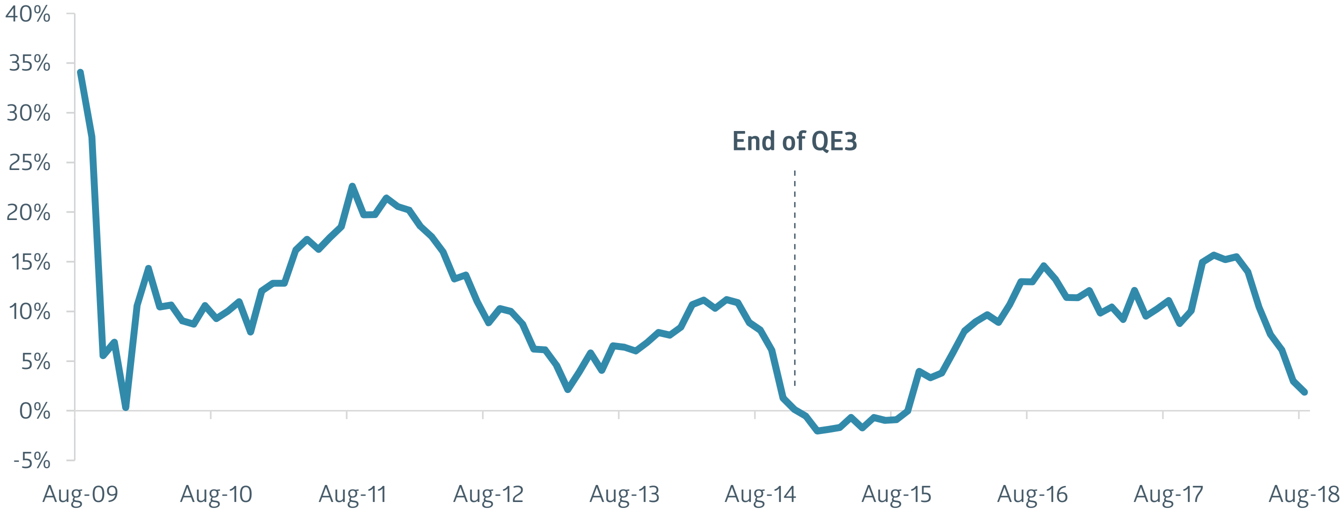
Attempting to look farther into the future—which is difficult at best, but always in demand from newsletter consumers—it would be wise to keep a lookout for both froth and friction in the U.S. equity market.

Looking for froth and friction

There are currently signs of froth, or enthusiasm unsupported by substance, in the market. Research from Jay Ritter at the University of Florida shows that, through September 30, 2018, 83% of U.S.-listed Initial Public Offerings (IPOs) involve companies that lost money for the year prior to coming public. This is the highest percentage since records began in 1980, and similar to the previous record of 81% of unprofitable companies going public in 2000 near the peak of the dot-com market bubble.

Similarly, Special Purpose Acquisition Companies (SPACs) have been raising money hand over fist, on pace to exceed $10 billion for the second straight year. SPACs, also known as blank check or blind pool companies, raise money from investors for no pre-determined purpose. In a substantial leap of faith, investors hand over money in the hopes that the SPAC's organizers will find something attractive to purchase. Not surprisingly, SPAC investing activity has historically been an indicator of excessive market enthusiasm: the last peak in SPAC IPOs was in 2007, just before the market crash in 2008. Even less surprisingly, SPAC Analytics reports that investments in SPACs have historically performed rather poorly (from when it began collecting data in 2003 through the end of the third quarter), with an average return of -0.8% for all SPACs that actually made an acquisition. A frothy market, indeed.

Asset Purchases by Major Central Banks, through 8/28/2018[1]



1 Represents asset purchases from the following central banks: Bank of Japan, European Central Bank, People's Bank of China, Swiss National Bank, and U.S. Federal Reserve.
Source: Bailard Research, Bloomberg.

Friction in the stock market can take many forms, but of greatest concern currently are rising interest rates and reduced financial liquidity. The Fed keeps raising the Federal Funds rate and has indicated its intent to continue doing so. The more interest rates rise, the shorter investors' time frames become, and the less attractive stocks appear. Similarly, central banks around the world are trying to rein in excess liquidity left over from attempts to lessen the impact of the GFC. The chart above reflects the recent decrease in asset purchases by major central banks, including the BOJ, ECB, People's Bank of China, Swiss National Bank, and Federal Reserve. Much of that excess liquidity ended up in financial assets, particularly in equities, and unwinding that could put downward pressure on stocks.

Reducing friction in the stock market came most visibly earlier in the year in the form of corporate tax cuts, but the ongoing reduction in the burden of excessive federal regulations may provide a more lasting positive impact on U.S. companies.

While the current bull market has certainly been long, with some recent signs of froth and friction, history suggests that even shorter-term investors may be wise to stick around a bit longer. The table at right shows stock market performance in the months leading up to past market peaks. Even if one believes that a market top is coming soon, investors leaving even six months early may forfeit significant addition upside.

Historical S&P 500 Total Returns Preceding Market Peaks[2]

Markets Peak	24 months	12 months	6 months
Mar-37	129%	33%	19%
May-46	72%	33%	15%
Aug-56	74%	20%	15%
Dec-61	32%	32%	11%
Feb-66	30%	11%	11%
Nov-68	44%	18%	12%
Jan-73	39%	19%	14%
Nov-80	65%	39%	29%
Aug-87	93%	40%	20%
Jul-90	45%	15%	10%
Mar-00	42%	22%	20%
Oct-07	36%	18%	9%
Average	58%	25%	16%
Median	45%	21%	14%
Min	30%	11%	9%
Max	129%	40%	29%

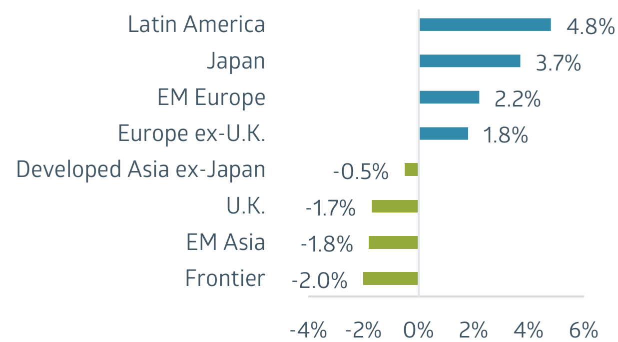
2 Total Return includes the reinvestment of dividends.
Sources: BofAML US Equity & Quant Strategy, Bloomberg, S&P.
***Past performance is no indication of future results.** All investments have the risk of loss.*

INTERNATIONAL EQUITIES*

Global Growth Remains on Solid Footing Despite the Headlines

Developed markets, as represented by the MSCI EAFE Index, gained 1.4% in the third quarter, largely in September's final three weeks. Within the developed space, Japan and Europe (especially non-euro Europe) led the way, while Asia lagged, declining almost 0.5% on the back of weak results from Australia and Hong Kong. Emerging markets fared worse, with the MSCI EM Index falling 1.1% for the quarter but, like the developed markets, were bolstered by a more than 4% surge in the final few weeks of September. Latin America and Eastern Europe led the gains; while Asia, the largest component of the Emerging Markets, fell more than 1.8%. Many Asian markets performed well, but the elephant in the region, China, declined 7.5% in the face of a not-quite tit-for-tat tariff battle with the U.S.

Total Returns for Selected MSCI International Stock Indices, Third Quarter 2018



Source: Bloomberg. ***Past performance is no indication of future results.*** *All investments have the risk of loss.*

Despite the chorus of Cassandras, global growth continued to be strong and widespread. That said, it may have reached a peak for this cycle. The Organisation for Economic Co-operation and Development ("OECD"), in its mid-year update, hinted its fear that global growth may have peaked. The OECD revised its downward growth expectations for 2018 by 0.2%, to 3.7%, and by 0.1% for 2019. Tariffs and Brexit were the OECD's prime targets for pulling down growth estimates.

In this, though, is a silver lining for international equity investors. The relationship between economic growth, unemployment, and interest rates has broadly broken down during the economic recovery of the post-GFC era. But that is changing. At long last, tightening labor markets around the world are starting to produce some inflation pressure and leading an increasing number of central banks to raise short-term interest rates. The reaction to this acceleration of central bank activity has been a normalization in risk-taking behavior and a stabilization for non-U.S. currencies versus the dollar. The table below summarizes some of the recent central bank activity:

Central Banks Beginning to React to Inflation Pressure

	Recent Activity	Expected Activity
Australia	On hold	Likely to hike in mid-2019
Canada	25 bps increase in July	Another 25 bps expected in Oct
Czech Republic	4 increases in 3rd quarter (first EU market to normalize policy)	Likely to hike in 4th quarter
India	On hold	Likely two hikes in 4th quarter
Israel	On hold	Likely to hike in 4th quarter
Mexico	25 bps increase in 2nd quarter	Likely to hike in 4th quarter
Russia	Surprise 25 bps increase in September	Will react to further inflation risks
South Korea	Raised late last year	On hold with U.S./China tariffs
U.K.	25 bps increase in August	Likely on hold through Brexit negotiations

Source: Bailard Research

Shifting environment affected by U.S. tax cuts and trade negotiations

The environment for foreign shares has been challenged this year due to the apparent relative weakness in their earnings against those U.S. companies that are benefitting from a one-time, after-tax earnings adjustment from the 2017 tax overhaul. Once this tax lump goes fully through the earnings snake in the fourth quarter results this year, we believe earnings of foreign companies appear poised to be on a par, or better than, U.S. earnings.

Trade continued to be a major theme for the quarter, but the news wasn't all bad. In July, the culmination of six years of negotiations came to fruition with the EU and Japan signing one of the largest trade deals ever, covering one-fourth of the global economy. It is expected to increase trade between the parties by 16% to 24% and will result in more Japanese cars on European soil and European shoes in Japanese department stores. This is on the heels of Europe's free-trade agreement with Canada that went into effect last year.

Of greater importance, though, is the continuing row between the U.S. and China. Here the rhetoric and the range of goods subject to tariffs increased through the quarter. By September, the U.S. was threatening tariffs on essentially all of China's annual exports to the U.S. Many watchers feared that Chinese authorities would put pressure on the Chinese renminbi as a "non-trade" tool to combat the U.S.'s leverage from tariffs. So far, that has proven not to be the case as Chinese leaders balance the need for a strong currency to attract capital and deter wealthy Chinese from moving assets overseas with the potential trade benefits of a weaker currency. Regardless, investor reaction to trade news diminished through the quarter, as other dynamics seemed to become larger market drivers.

JAPAN

In this period of higher uncertainty, Japan is beginning to play the role it traditionally does in such times: a relatively safe haven. During the September rally for non-U.S. stocks, Japan led the way in both local and U.S. dollar terms supported by good news.

Prime Minister Shinzo Abe won his third election as leader of the Liberal Democratic Party, making his position stronger to become the longest serving PM in the modern era. Additionally positive news came from the economic side, where manufacturing PMI rose from 52.5 to 52.9 on the back of strong exports.

> For now, British companies continue to put up strong earnings in spite of the political circus swirling about them.

EUROPE

The U.K. is bumbling towards Brexit (or not), but the economy continues to find increased traction. July's unemployment hit 4%, a 43-year low. Strong wage growth, a bright spot of late, slowed to a still-respectable 2.7%. While this is the weakest since January, it remains ahead of inflation, currently at 2.4%. It is absolutely shocking how little has been accomplished in the more than two years since the Brexit vote and how much is left to do in the few months before final separation from the EU in March, 2019. Prime Minister Theresa May's attempts to build a palatable solution have led to a weakening of support within her Conservative Party and a resurgence of the Labour party. Governor of the Bank of England Mark Carney entered the fray, warning that a "no-deal Brexit" could lead to a 35% drop in U.K. home prices over three years and a doubling of the unemployment rate. For now, British companies continue to put up strong earnings in spite of the political circus swirling about them.

This quarter's strains of European populism swept through Sweden, where parliamentary elections were another contest between the traditionally-liberal status quo and a surging right-wing swell. Like so many European elections over the past several years it became a fight over the country's purity and the sanctity of its borders. For wealthy and progressive Sweden this comes as a bit of shock. Concerns over this election made the krona the weakest developed market currency since the market's peak in January with an 11.1% decline as of September 30. While the center-left Social Democrats drew a plurality of the vote, a coalition of the center-right Moderate Party with the far-right Sweden Democrats ousted the Prime Minister in late September, setting up a long road to form a government.

In August, Greece completed its third bailout from the European Stability Mechanism, but the nation looks haggard and weak. Over this bailout period that began in 2015, household income fell by 30% and, now, after the bailout program's completion, more than 20% of Greeks are unable to pay basic monthly expenses. From a bigger perspective, there are many fewer working-age Greeks left to ever pay off the more than 190% debt-to-GDP ratio, as about 4% of the best and brightest are emigrating annually. As long as this continues, Greece will get older and poorer.

At quarter's end, Italy's coalition government announced a budget deficit forecast of 2.4%, which sent shockwaves through the nation's debt markets and sent yields on ten-year government debt up more than 25 bps. With already high levels of debt, higher interest rates or a hiccup in growth could lead to a major crisis for Italy and its fragile economy. For now, other peripheral yields haven't risen in concert, but given the post-GFC experience, investors are girding for a risk of further contagion.

EMERGING MARKETS

Emerging markets found some purchase at the end of the quarter, after faltering badly through the end of August. The contagion that emanated from Argentina and Turkey abated as broader emerging markets enjoyed a September bounce.

The Chinese market has rightly been in investors' sights since trade frictions erupted in the Spring of this year. The trade dispute will undoubtedly hit China harder than it will the U.S.: China's largest trade surplus is with the U.S., followed by Hong Kong. But the less-realized fact is that China isn't the export behemoth that it once was. Over the decades, China has evolved from export-driven growth to infrastructure-driven growth and, now, increasingly consumer-driven growth as China's middle class finally emerges. China is no longer the cheapest source for many goods and that can be seen from the fact that China's exports as a percent of global trade peaked in 2015 and have declined since. On the other side of the ledger, the growing middle class is clamoring for more foreign-made items including travel abroad, increasing imports. Further, as a large importer of oil and gas, high energy prices put an additional burden on China's balance of payments. At the 2015 peak, China's current account surplus stood at $304 billion; it is currently running at $68 billion over the past twelve months (and was actually a deficit for the first half of 2018).

The challenges facing emerging market bad-boys—Argentina and Turkey—are different as have been the responses to their crises. Generally, Argentina has followed the orthodoxy of crisis management; Turkey, until recently, had done anything but. Argentina has enjoyed the embrace of global investors since the election of Mauricio Macri in late 2015. His opening of the capital account to the eyes of global credit agencies and bankers led to a rush of capital inflow that, unfortunately, was overwhelmed by the borrowing demands of his government. In order to stem the outflow of capital during the panic of the past several months, the central bank aggressively raised short-term interest rates 35%. Only with the recent change in investor sentiment towards "fragile markets" was this intervention meaningful. Alternatively, Turkey has followed the Neolithic economic doctrine of its President Recep Tayyip Erdoğan, who believes that higher interest rates lead to inflation. Still, the President grudgingly allowed a 6.25% interest rate hike during the third quarter. It may not be enough to impede rising inflation. The economy remains at risk with external debt of 53%, one-third of which matures in the next year.

Russia, on the other hand, appears to be doing the right things economically. Amid an easing cycle for the central bank, authorities did an abrupt about-face during the quarter due to early signs of inflation. On top of that, authorities scrapped a planned debt sale to bring comfort to investors shaken by the high levels of debt among other emerging markets. With oil prices rebounding and general fiscal prudence, the state's coffers look pretty good. The government is expecting a 1% surplus for 2018.

The much ballyhooed Saudi Aramco IPO is now off the table, presumably due to challenges in getting the valuations Crown Prince Mohammed bin Salman (MbS) has been seeking. Additionally, the requirements of foreign exchanges would have necessitated disclosing financial arrangements that the royal family would have found embarrassing and foreign investors would have found unsavory. This failure for MbS has hurt his reputation among other powerful princes; his dreams of dramatic reform for the conservative nation may be stalled indefinitely.

** Unless otherwise indicated, the equity returns cited in this section of the 9:05 are based on their respective MSCI region or country indices. The returns of these indices along with those of the MSCI EAFE and the MSCI Emerging Markets indices are presented in U.S. dollar terms on a total return basis (with net dividends reinvested).*

REAL ESTATE

The Heated Debate Over Rent Control in California

As many Californians can attest, California is in the midst of a major housing crisis. Simply put, there is not enough housing (either for sale or for rent) to meet the current demand. This imbalance between supply and demand is pushing up home prices and rental rates statewide. Moreover, it is forcing people to move further from their jobs, in some cases out of state, and, some would argue, exacerbating the homelessness problem. According to the Legislative Analyst's Office, on average, renters in California pay 50 percent more for housing than renters in other states and, in certain areas of the state, rental rates are more than double the national average.

In an effort to tackle this crisis, Proposition 10, titled "Local Rent Control Initiative", has made its way to the ballot for the upcoming election (Tuesday, November 6). If passed, the 1995 Costa-Hawkins Rental Housing Act ("Costa-Hawkins") will be repealed. There is a heated debate going on among tenant advocacy groups, real estate owners and developers, economists and others about whether Proposition 10 will ameliorate, exacerbate, or have no impact on California's housing crisis. Below is a summary of Costa-Hawkins and Proposition 10, as well as a brief description of the arguments in favor of and against Proposition 10.

What is Costa-Hawkins?

Costa-Hawkins is a law that was passed in 1995, which limits local rent control to multifamily communities built before 1995 (single-family homes and condominiums are exempt from this law) and permits owners to adjust rental rates to market rates when a resident vacates a unit. Costa-Hawkins was enacted in response to earlier, more restrictive rent-control laws, referred to by some as "vacancy control,"[1] which were intended to combat rising inflation and significant rental rate increases by artificially setting market rent levels and future rental rate increases that landlords had to adhere to when leasing to new residents. Unfortunately, these vacancy control-type laws resulted in a decrease in the rental housing stock as the market rent levels and rental rate increases set by the local governments were not sufficient to provide apartment developers/investors/owners with sufficient income to meet their required returns. As soon as it became marginally profitable (or even unprofitable) to build and/or own apartments, many owners converted rental properties into other, more profitable uses. Developers postponed or canceled planned development projects because they could no longer justify the construction costs.

\$3,200-\$4,560

Median rental rate ranges for a two-bedroom apartment in major cities like San Francisco and Los Angeles.[2]

What is Proposition 10?

Proposition 10 would remove restrictions currently in place by extending the ability to impose rent control on single-family homes and condominiums, and enabling local governments to set their own rent control laws as they deem necessary to accommodate the renters in their jurisdictions.

What Proponents of Proposition 10 are saying?

Proponents of Proposition 10 believe the measure will provide for more affordable housing units for all renters, particularly those who have been "priced out" of several markets, by setting a cap on market rents and future rental rate increases on all types of rental housing.

What Opponents of Proposition 10 are saying?

Opponents of Proposition 10 feel the measure will worsen the housing crisis by further shrinking California's

1 Fisher Center for Real Estate Economics, Kenneth T. Rosen, "The Case for Preserving Costa-Hawkins: Three Ways Rent Control Reduces the Supply of Rental Housing", September 2018
2 CoStar. FAQ: What You Need to Know About California's Costa-Hawkins Law Limiting Rent Control, June 2018

rental housing stock. Opponents believe multifamily developers will pull back on residential construction projects due to an inability to meet required return thresholds caused by a diminution in the rental income stream. Moreover, opponents predict that many single-family, condominium, and apartment owners will remove their rental units from the rental market, as they will also not be able to meet their required returns. Ultimately, restricted supply would worsen the housing crisis, especially for affordable/workforce housing. In addition to exacerbating the supply/demand imbalance, some opponents argue that more restrictive rent control will lead to lower tax revenue for cities as rental rate caps will lead to a reduction in values of rental properties, which, in due course, will lead to lower property tax payments.

Some cities, such as Berkeley, are preparing for the measure to pass and will be asking voters in the November election to approve updates to their existing rent control ordinances. Despite this, given laws may differ widely city by city, it is hard to predict what the overall impact will be if Proposition 10 is passed.

It is safe to say, however, that there will likely be, at a minimum, a short-term slowdown in multifamily development and sales activity due to high levels of uncertainty among both debt and equity investors.

BAILARD

INVESTMENT STRATEGY

An Overview of Our Strategic and Tactical Asset Allocation

U.S. Bonds

The Barclays Aggregate Bond Index was relatively flat in the third quarter and has produced low single-digit returns since late 2015, as the Fed began to raise interest rates. We have been underweight bonds in our strategic portfolios over this time period, electing to hedge equity risk with real estate and preferring stocks over bonds. This has worked out well: stock momentum remained positive while bonds have struggled. With the 30-Year U.S. Treasury yield at 3.25% and core inflation at 2.2% as of third quarter-end, the real yield is only 1.05%. Since 1985, the average real yield has been 3.0%; since 2000, the real yield averaged only 2.0%. Whether you look at the long-term, mean, real yield, or intermediate-term real yield, bonds are overvalued. Should yield rates continue to push toward 4.0%, bonds will become attractive.

U.S. Stocks

U.S. stocks have been trending steadily higher since the correction this past Spring. For the first nine months of the year, the S&P 500 Index is up just under 10.6%. The NASDAQ 100 (technology-heavy) Index outperformed the S&P 500, rising 20.2% over the same time period. Stocks—despite being overvalued—have continued to move higher, driven by renewed confidence after the 2016 presidential election. The cut in the corporate tax rates (from 35% to 21%) provided a temporary boost in earnings. Going forward, earnings growth should be closer to sales growth or nominal GDP growth of 4% to 5%. Earnings also received a boost from repatriation and corporate share buybacks. As rates rise, the buyback impetus for earnings growth should be removed.

International Stocks

International stocks, after performing better last year, have returned to their sluggish ways, with U.S. dollar strength dragging international equities down. Developed market international stocks (as measured by MSCI EAFE) increased 1.4% in the third quarter: positive, but well behind U.S. equities. Emerging markets (MSCI EM) declined 1.1% in the third quarter and 7.7% year-to-date. International stocks have been weighed down not only by the dollar but by uncertainty surrounding the trade war. If trade negotiations continue to progress this could be a catalyst for international stocks, particularly emerging markets. However, we may only be in the middle innings of the trade conflict with China, and until international markets put in a bottom we should be cautious in adding back to international equities.

Real Estate*

Real estate has done consistently well since the end of the GFC: posting double-digit annual returns since 2010. While real estate capitalization rates have come down, the spread to the Ten-Year U.S. Treasury yield remains wide; as a result, we believe real estate is still more attractive than bonds.

Alternative Investment Strategies*

We believe that, for appropriate investors, some types of long/short strategies have the potential to provide important defensive diversification in scenarios where more traditional asset classes experience declines. In our opinion, the economic and financial uncertainty in the current environment underscores the important role such strategies can play.

Tactical Asset Allocation Strategy (TAA)

TAA tends to hold four of thirteen major asset classes and is designed to be both opportunistic and defensive in response to the investment markets on a short-term basis.

**Real estate and alternative investment strategies have significant risks and are not appropriate for all investors.*

9/30/18
MARKET PERFORMANCE

U.S. Interest Rates	12/31/2017	3/31/2018	6/30/2018	9/30/2018
Cash Equivalents				
90-Day Treasury Bills	1.38%	1.71%	1.92%	2.20%
Federal Funds Target	1.50%	1.75%	2.00%	2.25%
Bank Prime Rate	4.50%	4.75%	5.00%	5.25%
Money Market Funds	1.36%	1.68%	2.03%	2.13%
Bonds				
30-Year U.S. Treasury	2.74%	2.97%	2.99%	3.21%
20-Year AA Municipal	3.17%	3.47%	3.42%	3.65%

Source: Bloomberg, L.P.

Global Bond Market Total Returns (US$) through 9/30/18	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Bonds				
BofA Merrill Lynch U.S. Treasury Index	-0.66%	-0.56%	-1.76%	-1.65%
BofA Merrill Lynch Agency Index	-0.02%	-0.05%	-0.58%	-0.58%
BofA Merrill Lynch Corporate Index	0.95%	-0.01%	-2.21%	-1.12%
BofA Merrill Lynch Municipal Index	-0.26%	0.62%	-0.53%	0.21%
International Bonds				
Citigroup non-US$ World Government Bond Index, fully hedged	-0.55%	-0.32%	1.17%	2.29%

Sources: Bloomberg, L.P. and Morningstar Direct

Global Stock Market Total Returns (US$) through 9/30/18	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Stocks				
Dow Jones Industrial Average Index	9.63%	11.02%	8.83%	20.74%
S&P 500 Index	7.71%	11.41%	10.56%	17.91%
NASDAQ 100 Index	8.61%	16.51%	20.17%	28.90%
Morningstar Small Value Index	1.86%	8.83%	3.19%	7.34%
International Stocks				
MSCI Japan Index, net dividends	3.68%	0.74%	1.58%	10.20%
MSCI Europe Index (includes UK), net dividends	0.80%	-0.48%	-2.46%	-0.30%
MSCI EAFE (Europe, Australasia, Far East) Index, net dividends	1.35%	0.10%	-1.43%	2.74%

Sources: Bloomberg, L.P. and Morningstar Direct

Real Estate Total Returns (US$) through 9/30/18 (estimated)	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
NFI-ODCE Index*	2.05%	4.14%	6.43%	8.64%

Source: The National Council of Real Estate Investment Fiduciaries

**Since the third quarter 2018 NFI-ODCE index return is not yet available, we have estimated it by using the previous quarter's return. This estimate is used for all time periods presented.*

Past performance is no indication of future results. All investments have the risk of loss.

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GENERAL DISCLOSURES

the 9:05 is produced by the Asset Management Group of Bailard, Inc. The information in this publication is based primarily on data available as of September 30, 2018 and has been obtained from sources believed to be reliable, but its accuracy, completeness and interpretation are not guaranteed. We do not think it should necessarily be relied on as a sole source of information and opinion.

This publication has been distributed for informational purposes only and is not a recommendation of, or an offer to sell or solicitation of an offer to buy any particular security, strategy or investment product. It does not take into account the particular investment objectives, financial situations or needs of individual clients. Any references to specific securities are included solely as general market commentary and were selected based on criteria unrelated to Bailard's portfolio recommendations or the past performance of any security held in any Bailard account. All investments have risks, including the risks that they can lose money and that the market value will fluctuate as the stock and bond markets fluctuate. Asset class specific risks include but are not limited to: 1) interest rate, credit and liquidity risks (bonds); 2) style, size and sector risks (U.S. stocks); 3) increased risk relative to U.S. stocks due to economic or political instability, differences in accounting principles and fluctuating exchange rates – with heightened risk for emerging markets (international stocks); 4) fluctuations in supply and demand, inexact valuations and illiquidity (real estate); 5) short-selling risk and the failure to successfully exploit anomalies on which a long/short strategy is based (alternative investments); and 6) making incorrect asset allocation decisions (TAA). The volatility of real estate may be understated due to inexact and infrequent valuations. Real estate and alternative investment strategies have significant risks and are not suitable for all investors. There is no guarantee that any investment strategy will achieve its objectives. Charts and performance information portrayed in this newsletter are not indicative of the past or future performance of any Bailard product, strategy or account, unless otherwise noted. **Past performance is no guarantee of future results. All investments have the risk of loss.** All This publication contains the current opinions of the authors and such opinions are subject to change without notice. Bailard cannot provide investment advice in any jurisdiction where it is prohibited from doing so.

REAL ESTATE DISCLOSURES

The information about the Bailard Real Estate Fund in this newsletter may not be used or replied upon in connection with any offer or sale of securities. Shares of the Fund, if offered, would be available for purchase only by qualified purchasers who could bear a loss and hold shares of the Fund indefinitely. The information set forth herein is qualified in its entirety by, and an offer or solicitation will be made only through, a final Confidential Offering Memorandum (the "Memorandum") and will be subject to the terms and conditions contained in the Memorandum. For a more thorough discussion of the risks involved in making an investment in the Fund, please refer to the Memorandum, including the section entitled "Risk Factors." The securities of the Fund may not be available to be offered in all states.

Unless otherwise noted, the information provided with respect to the Fund is as of September 30, 2018. The Fund undertakes no duty to update any of the information contained herein. The information in this newsletter includes forward-looking statements, including statements regarding the outlook for the real estate market generally and the Fund's business strategy and investment objectives. These statements involve a number of risks and uncertainties, and actual results may differ materially from these forward-looking statements. Please refer to the Confidential Offering Memorandum of the Fund for further information regarding these risks.

Performance: The Bailard Real Estate Fund returns include interest and dividend income from short-term cash investments and publicly-traded real estate investments, as applicable. Fund returns are presented net of advisory fees but do not reflect Fund level expenses, such as audit, tax, legal and accounting expenses. The underlying returns of the Fund's property investments are calculated using National Council of Real Estate Investment Fiduciaries' (NCREIF) methodology and reflect the impact of leverage. The NCREIF methodology is as follows: net income return is equal to net investment income divided by weighted average equity; net appreciation return is equal to capital appreciation divided by weighted average equity; and the total net return is equal to net investment income plus capital appreciation divided by weighted average equity. The sum of the income return component and appreciation return component may not equal the total gross return due to the time weighting (i.e., chain linking) of component quarterly returns. Property investment level returns along with returns from the Fund's cash and public real estate securities investments, if any, are weighted in determining the Fund's overall return. All properties in the Fund are currently appraised quarterly; the Fund's Board of Directors determines the value of properties based on input from independent appraisers and all levels of Fund management. Securities and cash-equivalent investments held by the Fund are marked to market on each valuation date. The Fund's inception date is April 20, 1990.

The NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) used in this newsletter is a fund-level time weighted return index reporting the value-weighted returns of various open-end commingled funds pursuing a core private real estate investment strategy and qualifying for inclusion in the NFI-ODCE based upon certain pre-defined index policy inclusion characteristics. Returns are presented net of net of advisory fees. Like the Fund, the NFI-ODCE returns reflect leverage and the impact of cash holdings and joint ventures (i.e., returns reflect each contributing fund's actual asset ownership positions and financing strategy). The use of leverage varies among the funds included in the NFI-ODCE. Unlike the Fund, NFI-ODCE index returns reflect fund-level expenses of the included funds. Unlike the data-contributing funds of NFI-ODCE with a focus on core investment strategies, the Fund pursues a value-add acquisition strategy and may employ higher leverage. The NFI-ODCE is unmanaged and uninvestable. **Past performance is no indication of future results. All investments have the risk of loss.**

ABOUT *THE 9:05*

Since 1978, we've held a weekly company wide meeting during which we talk about the prior week's activities and those anticipated in the week to come. We refer to this meeting, which begins just after nine each Monday morning, as "the 9:05." Just as the 9:05 enables us to share our knowledge and insights with each other, this newsletter provides us with a valuable means of communicating with our clients. Hence its title: *the 9:05*.

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