

Outline for Retail Panel at Fall ACIC Conference

- I. Objective – Highlight differences among various investment types (REITs, CTLs, Straight Private Placements) in light of current risks in the retail environment

- II. Dynamics of current retail environment
 - a. Secular shifts as consumer preferences and shopping habits are changing
 - b. E-commerce penetration continues to increase and is accelerating
 - c. Economic factors that may further affect consumer spending
 - i. Economic growth and inflation, or their opposite
 - ii. Interest rates
 - iii. Tax and trade policy
 - iv. Fuel prices
 - v. Student loan debt

- III. How will various components of the retail space be affected by these dynamics?
 - a. Malls and strip centers
 - b. Big box and mass merchants
 - c. Apparel
 - d. Grocery & Drug Stores
 - e. E-commerce

- IV. How will risks to the above segments of retail carry through to various retail investment types?
 - a. Retail REITs
 - i. A REIT's diversification by property type, tenant, and geography is a critical consideration
 - ii. Liquidity and upcoming maturities?
 1. Distributions of REIT taxable income
 2. Prohibited transactions
 3. Tax protection agreements
 - iii. Secured or unsecured (assets vs. equity)
 - iv. Ratings downgrades and capital charges

 - b. CTLs
 - i. Holey unions – an interesting vow and an affordable forever...
 - ii. Credit tenant lease defined
 - iii. Incremental diligence, administration and enforcement costs
 - iv. Better off in a private placement?
 - v. Bankruptcy considerations
 1. Property level vs. parent level
 2. Possibility of adverse selection in a restructure
 - vi. Ratings downgrades and capital charges

- c. Straight Privates
 - i. Covenants can give you an early voice
 - ii. Available collateral may be limited...
 - 1. Stores may be leased or mortgaged
 - 2. Inventory and receivables may be pledged or too fast-moving
 - iii. ...Or real estate could represent a substantial financial cushion
 - iv. In retail, are bankruptcies more likely as issuers use that means to shed unprofitable stores and leases?
 - v. Ratings downgrades and capital charges

- d. Hypothetical example showing how each asset class would fare in a distressed situation