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Direct Investments Shield Investors from Market Volatility

One year ago I wrote to you for the first time as Chief Executive Officer of AR Global.
We started almost ten years ago as a small asset manager with a simple and ambitious goal - to transform an industry by introducing investment vehicles with innovative and distinct, investor-first features. Our early programs focused on acquiring investment grade real estate supported by strong tenant credit, aimed at generating strong, sustainable current distributions for shareholders, reduced volatility, and low correlation to traded securities. Since then, we have grown to become one of the largest managers of direct investments in the U.S., and our suite of investment programs now include net leased properties in the U.S. and Europe, healthcare real estate, hotels, retail shopping centers, and New York City office buildings.

Throughout our history, our belief in the many benefits of direct investing has remained consistent, and in my inaugural letter, I highlighted the importance of an allocation to direct real estate within an investor's portfolio. In particular, I noted its ability to protect and preserve capital, provide strong current returns, and to offer relatively low correlation to traded markets. After a year that was marked by political uncertainty and market instability, we should certainly underline this last point. More than ever in 2016, direct investment solutions proved an invaluable way to protect investors from the volatility of broader markets.

Volatility was a truly global phenomenon in 2016, which began with a global rout prompted by the market meltdown in China. In June, the United Kingdom's decision to leave the European Union provoked a sharp sell-off in equity markets. Perhaps most importantly for the U.S. economy and capital markets, the result of the U.S. presidential election in November has begun a process of structural change in both the economy and financial markets, stimulating a remarkable stock market rally as investors digest the incoming administration's policy objectives.

For publicly traded real estate, the narrative of market volatility was less pronounced, but still present. Returns, moreover, have been slight; in 2016 the MSCI U.S. REIT Total Return index returned 8.60%, compared to the S&P 500's total return of 11.96%, and the DJIA's total return of 16.50%. Much of this poor sentiment in the publicly traded REIT space developed out of investors' concerns about the effect of rising interest rates on real estate prices. While this reaction is not unexpected, we do believe it is unwarranted – but more on that later.

We believe the current suite of AR Global-sponsored investment programs has represented, and will continue to represent, the best way for retail investors, and particularly those planning for retirement, to invest directly in commercial real estate. Through our programs, investors may enjoy the benefits of stable, durable income, as well as the prospect of long term growth that real estate offers, while shielding themselves from the volatility and short-term reactions of traded markets.

We Remain Watchful on Direct Investment Industry Trends
At the end of 2015, we made the decision to suspend raising additional capital in our non-traded investment programs. We felt then that the direct investment industry exhibited a lack of clarity regarding the future of alternative investments, especially in light of regulatory changes from FINRA's Regulatory Notice 15-02, and the Department of Labor ("DOL") Fiduciary Rule. It was our expectation that new and open programs would struggle to raise capital until there was greater certainty around the impact that these new regulations would have. Looking back, this expectation was warranted, with non-traded REIT equity raised from November 2015 through November 2016 down 53% compared to the same period a year prior, from $10.67 billion to $5.01 billion. We believe that even though Regulatory Notice 15-02 has now been implemented, its effects are still being digested, and while ongoing uncertainty around the DOL Fiduciary Rule continues to exist, we may continue to see depressed fundraising for some time to come. Furthermore, while various promising new structures and models for direct investment in real estate are now being tested across the industry, it may be some time before we have a scalable, uniform structure that satisfies the new regulatory landscape.

We Have Continued to Work to Maximize Shareholder Value in Our Programs and See Tailwinds for Our Current Strategies
We were pleased to announce a number of strategic actions across our portfolio of managed companies in 2016. We believe these proactive steps will position the companies well for continued growth and maximization of shareholder value. Amongst these was our announcement, during the fall of 2016, of the proposed merger of two of our sponsored non-traded REITs, American Finance Trust, Inc. ("AFIN") and American Realty Capital – Retail Centers of America, Inc. ("RCA").

Also during the fall of 2016, we announced that Benefit Street Partners L.L.C. ("BSP") would become the new external advisor to two of the company's previously sponsored by AR Global, Realty Finance Trust, Inc. ("RFT"), a public, non-traded mortgage REIT, and Business Development Corporation of America ("BDCA"), a public, non-traded business development company, which focuses on investing in U.S. middle market corporate debt. BSP is a leading credit-focused alternative asset management firm with over $17 billion in assets under management, and manages assets across a broad range of complementary credit strategies including high yield, levered loans, private / opportunistic debt, liquid credit, structured credit and commercial real estate debt. We believe that BSP's talented and extensive team of credit professionals, their close partnership with Providence Equity Partners, a leading global private equity firm, and their reputation and relationships in the borrower and financing communities will strongly position RFT and BDCA to capitalize on current market opportunities, and generate attractive risk-adjusted returns for stockholders. Furthermore, we believe that under BSP's leadership, the two companies are placed in the very best position for a successful future liquidity event.

Most recently, at the end of December 2016, we announced the close of the merger of two of our sponsored companies, American Realty Capital Global Trust II, Inc. ("Global II") and Global Net Lease, Inc. ("GNL"), one of our New York Stock Exchange traded REITs. We believe this transaction provided a number of significant financial and strategic benefits for shareholders of both companies, joining two highly complementary portfolios of single-tenant net lease real estate, leased to creditworthy tenants across the U.S. and Europe. As the only U.S. REIT with equal exposure to net lease real estate on both sides of the Atlantic, GNL is poised to play market cycles in the U.S. and Europe, capable of capitalizing on geographic dislocations in real estate value and financial markets. As the events of 2016 demonstrated, and with many Western economies undergoing structural shifts from a reformulation of their trade and economic policies, we believe there is a considerable advantage to being able to pick and choose which markets to play in at any given moment.

Additionally, we remain strong advocates of retail real estate, as many of our non-traded REITs hold investments within the sector. Despite the rise of ecommerce, 92% of all retail sales still take place in store, while 93% of total sales, including online sales, are from retailers with a brick and mortar presence. We also see a number of e-tailers opening physical stores, and a new generation of retailers expanding their physical presence further. Rather than to a decline in physical retail, this instead points simply to a shift in retailers themselves, as new, competitive brands look to grow both online and brick and mortar presence. We believe this presents significant tailwinds to future leasing and earnings growth in our retail focused programs.

Looking Ahead, We See Tailwinds for Real Estate Investment Performance, Despite Concerns Around Rising Rates

Following the shocks and uncertainties of 2016, and as the U.S. economy settles into what is expected to be a period of healthy economic growth, we believe both direct investments in real estate, as well as investments in traded REITs, will perform well. As highlighted by Cohen & Steers in their note "REITs and the Truth About Rising Rates", many investors tend to focus too much on the perceived negative relationship between rising interest rates and REIT performance. In reality, historical data shows that over the last 20 years in periods following Fed Funds rate hikes, REITs have dramatically outperformed stocks and bonds. Real estate performance is clearly not driven simply by interest rates and the cost of borrowing, but rather from an expanding economy and strong jobs growth, which translate into inflation and growth in real estate cash flows. At the beginning of 2017, the signs for the economy are good. While volatility is unlikely to disappear overnight, rising GDP growth, full employment and continuing job growth, all point towards a period of economic expansion.

And In Closing…

2016 confirmed our conviction as to the importance of direct investments in real estate as a way to shield investors from day-to-day market volatility. We believe that investments in real estate will continue to play an important role in 2017. You have our commitment that we will continue to adhere to our core principles of putting the investors first, protecting and preserving capital, reducing correlation to the traded markets, and delivering strong risk-adjusted returns. With our history of quality performance and our strong lineup of direct investment programs, we look forward to continuing to serve you in 2017.

Sincerely,

Michael Weil
Chief Executive Officer
AR Global Investments, LLC