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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Actively Managing a Fund That Focuses on REIT Preferred Stocks

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TWST: Could you briefly describe the Salient Select Income Fund, and what type of investor it is intended for?

Mr. Beam: The Salient Select Income Fund trades under the ticker KIFAX. Although we have other share classes nowadays, our original share class goes back to when we founded the fund on March 30th of 2001. The fund is typically used by high net worth investors who are very passionate about either an allocation to real estate or to a fixed income alternative and who use a financial advisor. We have all kinds of folks in the fund who range from those investing their 401(k) over a Schwab type-platform (that is how I own my shares) to folks who are using RIA, independent, or wirehouse advisors to manage their assets. Most of our investors are people of substantial means who are really committed to the kind of strategy that we pursue.

TWST: How would this be distinguished from a more traditional real estate fund or a real estate investment trust (REIT) fund? What makes this its own separate entity?

Mr. Beam: It is distinct for a few different reasons, beginning with the pond that it swims in. This fund was conceived back in 2001 to take advantage of the growing market for preferred securities that were being issued by listed real estate investment trusts.

Back in the late 1990s, as REITs were growing in market cap, they started to issue preferred stock and, to a lesser extent, corporate bonds. It is hard to believe now because we have 31 REITs at the moment that are members of the S&P 500, and listed REITs are now a $1 trillion equity market cap industry in the US[1]. They issue bonds and preferred securities all the time. Back then, it was a new thing.

When we first got started in this business in the early 1990s, REITs were about a $6 billion market cap. In the late 1990s, they started to access different pools of capital and started to issue preferred. We thought there was a real outsized opportunity there. So at bottom, we built this fund in early 2001 to exploit the opportunity in the REIT preferred sector. We aimed to invest most of the assets in preferred and, secondly, in high yielding common stocks. We envisioned it as a fund that would provide a return that was comparable to most REIT equity funds, with potentially a little less risk.

We went up the capital stack, and in exchange for more security overall and a higher income component, we expected a total return opportunity that would be lower than pure equity REITs but still very attractive. We thought we might earn a high-single-digits return with that substantial income component, meaning a possibly higher income component than equity funds. So the fund is different from almost every other REIT fund out there because it focuses on preferred stocks. As we sit here today, two-thirds of our portfolio is in preferred stocks issued by REITs, and most of the remainder is in high yielding common stocks issued by REITs and, to a lesser extent, bonds.

It is also different from the point of view of our stewardship, meaning our approach. Our team traces its history back to the early 1990s. We have always pursued a value-oriented and a benchmark-agnostic approach. We have always been focused on and very passionate about investing in real estate for the actuarial return potential. Listed real estate offers the potential opportunity to earn high-single-digit annual returns over very long periods of time.

1 Nareit, August 2019.

Further, we are very forthright about our belief in active portfolio management. There is nothing about this portfolio that is passive or index-sensitive. We have a unifying philosophy that is a value-oriented philosophy. We really believe in the assets, the cash flows and the management stewardship as the three key considerations underpinning each of these investments. So when you ask what makes it different, I would say it is different because of what it does and because of our stewardship approach.

TWST: What explains the current composition? From the latest fact sheet, it is heavy in hotels and retail at 18% and 17% respectively, and the next one down is diversified at 15.7%. Can you talk about some of the larger categories and what they entail?

Mr. Beam: Some of that is just driven by unique opportunities that fall into those categories. For example, the greatest majority of our hotel exposure is in preferred stock. Hotels tend to be volatile and our exposure you mentioned can prompt questions. But we don't shy away from the opportunity to take the right risks. And in the case of our hotel exposure, the volatility of that business feels a lot more comfortable when you are sitting above the common shareholders.

One thing to keep in mind about investing in preferred stock is that REITs have to pay out 90% of the net income as dividends to maintain their tax status. Preferred shareholders are first in line for those dividends. We like the hotel business. It is a little bit more volatile, and our exposure is primarily focused on preferred stocks there.

With respect to retail, it is a similar story. Most of what we have there is preferred stock, and what you will find about the retail business is that it is a big part of the built environment in the commercial property world. Much of the market cap both in common and preferred stock in the REIT world is retail. There is a lot of merchandise out there to choose from. If we can make the right choices we are not afraid of having some exposure to retail space, primarily in preferred.

TWST: On the diversified sector, what is that comprised of?

Mr. Beam: Those are typically companies that have various groups of assets under their hood of one portfolio. A company in this space typically might have office and industrial assets and sometimes retail assets too. One company we have that comes to mind is Vornado. Vornado has a big New York focused footprint and it owns primarily office and retail assets. Now they've been doing some things to spin off and clarify their portfolio of assets. Yet for a long time, it has been a classic story of a diversified portfolio.

TWST: What are some of the names that you particularly like in your mix and why?

Mr. Beam: One of our biggest holdings is a preferred stock of a company called Farmland Partners (FPI). We own the 6% Series B Participating Preferred. FPI owns 160,000 or so acres of commercial farmland, primarily of row cropland that it leases to 125 different tenants. It is a very unique asset class. We have known FPI for years and really love the approach that they take to demonstrate how farmland can fit within the REIT business.

Several years ago, we helped source and structure this preferred, which has a 6% coupon but also includes a participation feature. This is a unique thing we have been trying to do for the last few years. We have been trying to figure out how to have some equity optionality to counter some of the interest rate risk out there. This is one of our big holdings. It has generally worked out very well. The participation feature is tied to a USDA Farmland Value Index[2].

Also, we structured this very creatively to help ensure that we will have a finite term to the investment. So far, we have gotten credit for the participation feature and our cash dividends. We feel it has worked out very well so far and it is attractively priced at the moment too.

TWST: Can you go over another holding, as in one that is perhaps a little different than one you have mentioned?

Mr. Beam: Sure, let me mention Monmouth Realty (MNR-C). This is a company that is based in New Jersey. They own property all over the Central and Southeastern United States. They own about 114 properties in 30 states, primarily industrial assets. It is a property type that has done very, very well. We own the Series C Preferred, so we don't have common stock exposure at the moment.

We love the preferred. It is a really good example of what we look for in very plain vanilla commercial real estate company. We believe it has very attractive credit metrics: a fixed charge coverage ratio of 2.5 to 1.0 and debt and equivalents to enterprise value of about 50%. That might sound a little esoteric, but those are key metrics that we look at to judge the security profile and the credit profile of the investments that we have. This one is right down the fairway of what we find very attractive.

In addition, we have had a long relationship with the management team and we believe in them. We think our MNR-C preferred is a really attractive piece of paper for what we are trying to do. As I mentioned earlier, we are first in line for dividends on something that generates an awful lot of cash flow underneath us. So we like that. This has a 6.125% coupon. In today's world, that is very attractive. It is trading right at par value.

TWST: How do you make sure that the underlying assets are being managed effectively and that what you think you are buying is really what you are buying? How do you kind of look under the hood of the car?

Mr. Beam: That is a great question. We have, as a team, upwards of 25 years' experience at this point in evaluating assets and building relationships in the business. We are regularly conducting due diligence on a sampling basis of properties wherever we travel, which is all over the US. We also are out on hosted property tours, evaluating the assets that are either part of stabilized portfolios or a part of new acquisitions for our companies. We regularly maintain the relationships that we have with issuers by visiting them in their offices and by going to conferences. There is always incremental learning about specific assets and new acquisitions.

TWST: What metrics might you emphasize more or less than, say, your competitors?

Mr. Beam: One thing that comes to mind is that we tend to not be benchmark sensitive. We are not just owning the market, rather we are looking for unique opportunities within the market landscape. We are value-oriented investors so we are not afraid of being concentrated. We are not afraid of being away from sectors of the market that we don't think are attractively priced or that don't afford us the right opportunity for one reason or another.

For example, we have been willing to have meaningful exposure in transactions that have some participation features intended to take the edge off of interest rate risk. We are probably among the most vocal people about trying to find those opportunities. We are focused on actuarial outcomes, and we have achieved our aim of making about 8% for our Class A share class (7.7% for Investor

2 The farmland value appreciation (FVA) is determined using "Farm Real Estate, Average Value per Acre," or Land Value, contained in the annual agricultural Land Values summary, or Land Value Report, released by the National Agricultural Statistics Service (NASS), the Agricultural Statistics Board (ASB), and the United States Department of Agriculture (USDA) and is currently disclosed at the following URL:
https://usda.library.cornell.edu/concern/publications/pn89d6567

share class and 5.6% for Institutional shares)[3] a year with this fund for eighteen-and-a-half years now. We have shepherded this fund through a really extraordinary period and want to make sure that the next three to five years holds the same intention.

Salient Select Income Fund
Performance (%) as of 06.30.2019

	Q2	YTD	1 YR	3 Yr	5 Yr	10 Yr	Since Incep.	
Investor	0.76	12.89	5.58	2.94	4.06	-	7.66	10/26/11
Institutional	0.85	13.13	5.92	3.29	4.42	12.22	5.60	04/28/06
Class A @NAV*	0.71	12.83	5.54	2.90	4.00	11.82	8.06	03/30/01
Class A @ MOP**	-5.07	6.33	-0.54	0.89	2.78	11.16	7.70	03/30/01
Class C @NAV†	0.55	12.54	4.72	2.25	3.38	11.11	7.30	03/30/01
Class C @MOP‡	-0.44	11.54	3.73	2.25	3.38	11.11	7.30	03/30/01
ICE BofAML Fixed Rate Preferred Securities Index	3.02	11.98	7.07	4.87	6.08	8.59	-	

Returns for periods greater than one year are annualized.
*** Excludes sales charge.**
**** Reflects effects of the fund's maximum sales charge of 5.75%.**
† Excludes the effects of the 1% contingent deferred sales charge.
‡ Includes the effects of the 1% contingent deferred sales charge.
Total Annual Fund Operating Expenses by Share Class as of 05/01/19: Investor Class: 1.77%; Institutional Class: 1.42%; Class A: 1.82%; Class C: 2.37%. The fund's investment advisor is contractually obligated to waive 0.25% of the fund's management fee so that until April 30, 2020, the fund's management fee will be 0.75%. Additionally, under an expense limitation agreement, the investment advisor has contractually agreed to waive its management fee and/or reimburse or pay operating expenses of the fund to the extent necessary to maintain the fund's total operating expenses at 1.50% for Investor Class, 1.15% for Institutional Class, 1.55% for Class A and 2.10% for Class C shares, excluding certain expenses, such as taxes, brokerage commissions, interest, short dividend expense, any acquired fund fees and expenses, litigation and extraordinary expenses. This expense limitation agreement expires on April 30, 2020, and may only be modified or terminated by a majority vote of the independent trustees. The advisor is permitted to recover waived expenses for a period of up to three years.

The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month-end may be obtained at www.salientfunds.com. Investment performance may reflect fee waivers in effect. In the absence of fee waivers, total return would be lower. Total return is based on NAV, assuming reinvestment of all distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The ICE index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its ThirdParty Suppliers and has been licensed for use by Forward Management, LLC. ICE Data and its Third-Party Suppliers accept no liability in connection with its use. See website for a full copy of the Disclaimer.

TWST: As you are analyzing this space, is there some trend or aspect of the economy that you are following closely to properly assess not only your current portfolio but potential entrants into it? Is there something that you are looking at, including interest rates?

Mr. Beam: We do look at rates and credit. Those are really key buckets of risk that we consider. We are also, from a macro point of view, very concerned about the overall health of the economy, which has been quite robust actually in the last few years. What is beneficial for real estate in the long term is growth in jobs and household formation and the growth of population in general. That is what fills space. In general, as long as supply on the property development side doesn't get out of hand, we think real estate holds the potential of being a very calm and fruitful investment over long periods of time.

On a micro basis, we are always surveying our issuer landscape to make sure we understand the credit profile, the earnings capacity, and the pipeline of projects and opportunities and capital stewardship that each of them demonstrates. At a more macro level, we do focus on what we can try to understand about rate movements, and, more importantly, spreads. We look at the overall economic indicators that are relevant to property investing.

3 Performance data quoted represents past performance. Past performance is no guarantee of future results and investment returns and principal value of the Fund will fluctuate so that share, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. Performance data current to the most recent month-end may be obtained at www.salientfunds.com.

TWST: How much do you take geography into consideration?

Mr. Beam: We do take it into account. It is hard with the size of these REITs to isolate geography as folks sometimes daydream that you can. When you look at the REIT universe, what you'll find is that you are dealing with upwards of 200 companies with a total of $1 trillion of equity market cap, and that is an important part of the perhaps $7 trillion commercial property market. What you'll find is that the best companies are the public companies and they tend to own the best assets that are out there.

With such large portfolios of properties, it is very hard to find enough companies that focus on one particular region. You can find a couple of them. We happen to have a couple in our portfolio, but most portfolios are large, diversified platforms at this point that own properties in many states. Monmouth as I mentioned is in 30 states.

The downside is you cannot always say, well, I want to invest in multifamily apartments in the New York City region. We have a company that does that. That is great, but you just cannot assemble a portfolio 50 or 60 of those. The upside is, of course, you get the wonderful diversification of a company like Monmouth where you get that exposure to 30 states, and a large portfolio of 114 assets.

TWST: Is there anything that you may be staying away from? I am thinking of something like gaming. Also, what are you particularly cautious about at this time? Those are two different questions.

Mr. Beam: As a group, we tend to not invest in gaming assets. We tend to also not invest in prisons. We don't have a strict policy on this, but there are some things that we just feel aren't appropriate for how we want to invest in property. I think it was Charlie Munger I heard say "virtue is a secure possession." We try to be virtuous in what we're doing.

To answer your other question about where we are being cautious, I would say volatility in the common stocks. We do have a good portion of the portfolio in common stocks. I like what we have, but the overall common stock market has been really quite robust. If there is any kind of volatility in the broad markets, our real estate stocks could go along with it.

Over the long term, I don't worry about it. But in the short term, volatility, when it pops its head up, can be frustrating. It also can create great opportunities. We have always tried to use the fund's resources to drive value in the transaction market, when there are periods of volatility.

TWST: Can you mention another holding and, as you do so, perhaps talk a little bit more about your process in terms of how you went about selecting it and why you think it's performing well?

Mr. Beam: We are invested in a company called Jernigan Capital. It is a common stock holding. Ostensibly it is a commercial mortgage REIT. The company makes loans to developers of self-storage assets. The long-term vision is to convert those loans into equity ownership, assuming that the developments work out. It pays an important dividend yield, so it meets our yield requirement. The company has hit all its milestones in terms of share capital funding, sourcing of the loans, the funding of them, and the development of the properties.

One of the reasons that we are so fond of this one is because it allows us to both earn yield and access development profits in the self-storage space. Usually, when you go out there and buy a self-storage REIT, you are buying something that is already built out and leased, as we say, in cubic feet. The developer makes money by buying square feet, and they then build and rent out cubic feet. It is a brilliant business, but you make most of the money on the development of the asset. We really love the idea of being able to participate in the development profits of such a remunerative business.

When you asked about how we came up with the idea let me say it is a really good example of why 25 years in the business matters to clients. Because when you have got issuer relationships then new opportunities come along and you have a chance to evaluate them and potentially participate in them. In this case, that's how it happened for us.

TWST: What more do you want to say about the origin story of this holding, and did you go to it based on relationships primarily or run it through a quantitative screening process first?

Mr. Beam: IIt is the former, not the latter in this particular case, but the latter does apply. We do maintain a screen of the universe of securities. Everybody does that. But this is a particularly important long-term holding of ours that I think maybe tells the story about how we source unique opportunities for important long-term commitments.

TWST: What final words do you have for potential investors in the Salient Select Income Fund today?

Mr. Beam: My own view is that for folks who are interested in the possibility of reasonable returns with an important income component and who are focused on long-run actuarial results, this fund is a very, very strong product to consider. The fund could be a compelling choice for a portion of the portfolio. It has a really robust income component, the overall security profile is relatively strong in my view, and it has a compelling long-term track record. We expect continued good results.

TWST: Thank you. (KJL)

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