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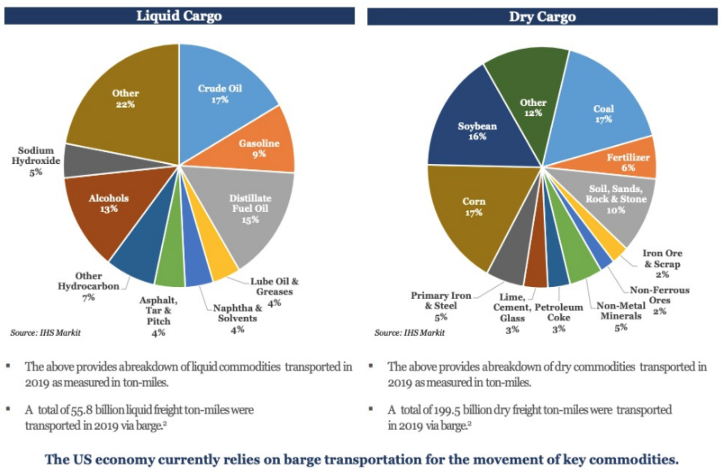
Alternative Income Through Inland Marine Vessels

Preserver has increased its exposure to income-generating infrastructure assets in recent years. Income-generating infrastructure assets include certain types of real estate, cell towers, billboards, pipelines and rail-cars. These strategies are attractive due to stable cash flows from long-term leases, hard asset collateral, lease rate escalators, and income generation.

In addition to the strategies listed above, Preserver has also invested in inland marine vessel leasing. Inland marine vessels include towboats and barges. Barges ship liquid commodities including crude oil and gasoline, or dry commodities such as soybeans and corn. The pie charts below highlight the types of liquid and dry commodities transported in 2019. The amount of dry commodities transported via inland waterways is more than 4 times the amount of liquid commodities transported.



Source: IHS Markit (May 2020) - Underlying External Portfolio Manager March 2021 Presentation.

Mick Clowers joined Preserver in 2018 as Senior Investment Associate. He works with the Chief Investment Officer and Operational Due Diligence team to conduct investment research on new and existing investments. Prior to joining Preserver, Mick served as a Portfolio Manager (2011-2017) and the Director of Portfolio Management (2017-2018) at Legacy Wealth Management. He graduated from the University of Memphis with a B.B.A. in Finance. He obtained his Certified Financial Planner certification in 2014. He is also a CFA charterholder.

Vessel owners lease their assets to operating companies and third-party shipping companies ("lessees"). Both types of lessees want to maintain access to vessels to ensure they can deliver goods and maintain their fleet size. Like the rail-car leasing market, there is significant competition among operating companies and shippers to have flexibility and high certainty shipping capacity for their customers and potential customers. This strong vessel demand from lessees leads to high utilization, consistent lease renewals, and stable lease rates over time.

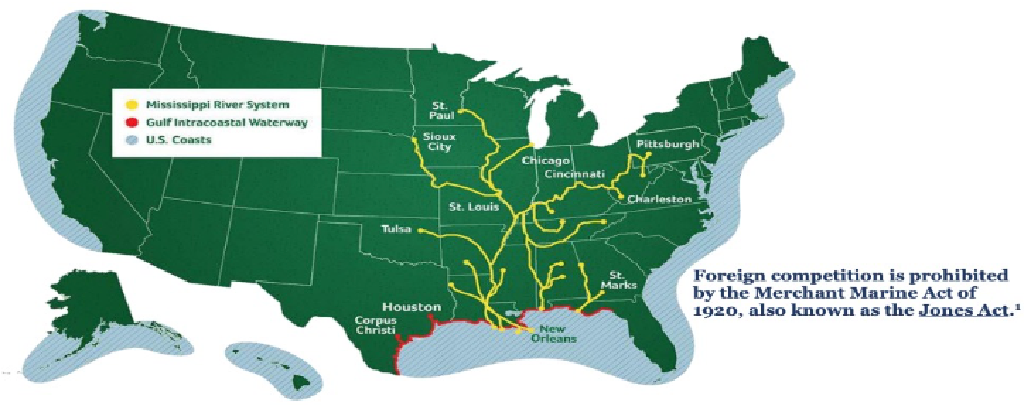
We anticipate lease rates in the strategy to produce a 10% cash-on-cash yield. It is common for the leases to contain annual rate escalators and for the lease rate to increase at renewal, assuming normal supply and demand markets, both of which provide a hedge against inflation. The market value of the vessels themselves can also increase meaningfully with inflation, as was seen in 2020 with the steep increase in steel plate prices.

There are tax advantages for vessel owners. The U.S. government allows accelerated deprecation for inland marine vessels where a vessel owner can depreciate the full value of the asset within the first year of purchase, even though the assets have an expected useful life of 30 to 50 years. Because the amount of accelerated depreciation on the vessel is much larger than the first few years' lease income from the vessel, the post-tax return for this strategy is higher than its pre-tax return during the first few years of vessel ownership.

Compared to other forms of shipping like rail and tractor trailers, inland marine transportation is the most cost-efficient on a ton-per-mile basis. Barges can move up to 1,750 tons of cargo across 647 miles on one gallon of fuel, while rail-cars can move up to 110 tons of cargo across 477 miles and tractor trailers can move up to 25 tons across 145 miles on one gallon of fuel. This greater fuel efficiency is attractive for customers who need to move large amounts of goods, but it is also attractive for investors who are seeking environment-friendly investment strategies.

Vessel owners also benefit from a unique regulatory competitive advantage. The U.S. government regulates the inland marine vessel market under the Jones Act, which was created in 1920 under Section 27 of the Merchant Marine Act. The Jones Act requires that goods shipped between U.S. ports be transported on vessels that are built, owned, and operated by U.S. citizens or permanent U.S. residents. This regulation has effectively prohibited foreign competition and has allowed the inland marine market to operate independently from global shipping markets.

Relative to the current opportunity set in public fixed income markets, Preserver views inland marine vessel leasing as a very attractive, environment-friendly strategy that provides investors with strong yields and low volatility.



Source: Journal of Maritime Law and Commerce (April 2018) - Underlying External Portfolio Manager March 2021 Presentation.