Greystone Housing Impact Investors LP
Second Quarter 2023 Investor Call
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Presenters
Ken Rogozinski, Chief Executive Officer
Jesse Coury, Chief Financial Officer

Q&A Participants
Matthew Erdner -- JonesTrading
Chris Muller -- JMP Securities
Patrick Marsh -- Alex Brown
Ronald Lane -- ValueForum
John Baum

Operator
Good day, ladies and gentlemen, and welcome to the Q2 2023 Earnings Call for Greystone Housing Impact Investors.

All lines have been placed on a listen-only mode, and the floor will be open for questions and comments, following the presentation.

If you should require assistance throughout the conference, please press "*", "0" to reach a live operator.

At this time, it is my pleasure to turn the floor over to your host, Jesse Coury. Sir, the floor is yours.

Jesse Coury
Thank you. I would like to welcome everyone to the Greystone Housing Impact Investors LP, NYSE ticker symbol GHI, Second Quarter of 2023 Earnings Conference Call.

During the presentation, all participants will be in a listen-only mode. After management presents its overview of Q2 2023, you will be invited to participate in a question-and-answer session.

As a reminder, this conference call is being recorded.

During this conference call, comments made regarding GHI, which are not historical facts, are forward-looking statements that are subject to risks and uncertainties that could cause the actual future events or results to differ, materially, from these statements.

Forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words like may, should, expect, plan, intend, focus and other similar terms. You are cautioned that these forward-looking statements speak only as of today's date.

Changes in economic, business, competitive, regulatory and other factors could cause our actual results to differ, materially, from those expressed or implied by the projections or forward-looking statements made today. For more detailed information about these factors and other risks that may impact our business, please review the periodic reports and other documents filed from time to time by us with the Securities and Exchange Commission.

Internal projections and beliefs upon which we base our expectations may change, but if they do, you will not necessarily be informed.

Today's discussion will include non-GAAP measures and will be explained during this call. We want to make you aware that GHI is operating under the SEC Regulation FD and encourage you to take full advantage of the question-and-answer session.

Thank you for your participation and interest in Greystone Housing Impact Investors LP. I would now like to turn the call over to our Chief Executive Officer, Ken Rogozinski.

Ken Rogozinski
Good afternoon, everyone. Welcome to Greystone Housing Impact Investors LP's Second Quarter 2023 Investor Call. Thank you for joining.

I will start with an overview of the quarter and our portfolio. Jesse Coury, our Chief Financial Officer, will then present the partnership's financial results. I will wrap up with an overview of the market and our investment pipeline. Following that, we look forward to taking your questions.

For the second quarter of 2023, the partnership reported net income of $0.85 per unit and $0.62 of Cash Available for Distribution, or CAD per unit. Year-to-date, the partnership reported net income of $1.45 per unit and $1.43 of CAD per unit.

Our second quarter reported net income of $0.85 per unit includes a $6 million noncash gain that reflects the mark-to-market associated with our interest rate swap portfolio. That translates to $0.27 per unit in noncash gain, which largely accounts for the difference between our net income per unit and CAD per-unit metrics for the second quarter.

Year-to-date, we have recognized approximately $2.6 million, or $0.11 per unit, of noncash mark-to-market gain on our interest rate swap portfolio. We are currently a net receiver on all of our interest rate swaps as we receive compounded SOFR, which is now 5.31% after last week's Federal Reserve action and pay a weighted average fixed rate of 2.71% on our approximately $256 million in swap notional amounts, as of June 30.

Assuming the compounded SOFR level stays constant over the next six months, that 260 basis point spread would result in us receiving approximately $3.5 million in cash payments from our swap counterparties, which would not be reflected in our net income but would be reflected as an additional $0.15 per unit in CAD.

We also reported a book value of $15.06 per unit on $1.66 billion of assets and a leverage ratio as defined by the partnership of 72%.

On June 15, we announced a regular quarterly cash distribution of $0.37 per unit and a supplemental distribution of $0.07 per unit in the form of additional units, both of which were paid on July 31.

In terms of the partnership's investment portfolio, we currently hold $1.35 billion of affordable multifamily investments in the form of mortgage revenue bonds, governmental issuer loans and property loans, $106 million in joint venture equity investments and $36 million in direct real estate investments.

As far as the performance of the investment portfolio is concerned, we have had no forbearance request for multifamily mortgage revenue bonds, and all such borrowers are current on their principal and interest payments. Physical occupancy on the underlying projects was at 93.9% for the mortgage revenue bond portfolio, as of June 30, 2023.

One Vantage property was sold in June 2023, and we recognized $2.1 million of preferred return and $7.3 million in capital gain in the second quarter. Our remaining Vantage joint venture equity investments consist of interest in seven properties, three where construction is complete, with the remaining four properties either under construction or in the planning stage.

For the three properties where construction is complete, we continue to see good leasing activity, with two properties having exceeded 90% occupancy, as of July 31. We continue to see no material supply chain or labor disruptions on the Vantage projects under construction.

As we have experienced in the past, the Vantage Group as the managing member of each project-owning entity will position a property for sale, upon stabilization.

We have two joint venture equity investments with the Freestone Development group, one for a project in Colorado and one for a project in Texas. Site work has commenced on the Colorado project, and construction has commenced on the project in Texas.

Additionally, our joint venture equity investment in Valage Senior Living Carson Valley, a 102-bed seniors housing project located in Minden, Nevada, has seen the commencement of site work.

Finally, in June 2023, we executed a joint venture equity commitment with Camden Securities Company, a multigenerational real estate owner developer focused on residential, retail and mixed-use property for a new construction 318-unit market rate multifamily property located in Huntsville, Alabama.

We are pleased to expand our JV equity investment strategy with an additional experienced sponsor team in a geographic location that helps diversify our portfolio.

Our single remaining student housing property in San Diego continues to have a strong occupancy level for pre-leasing for the 2023-2024 academic year, currently at approximately 100%. This includes 140 beds being master leased to San Diego State University.

With that, I will turn things over to Jesse Coury, our CFO, to discuss the financial data for the second quarter of 2023.

Jesse Coury
Thank you, Ken. Earlier today, we reported earnings for our second quarter ended June 30. We reported GAAP net income of $21.3 million and $0.85 per unit basic and diluted, and we reported cash available for distribution, or CAD, of $14.1 million and $0.62 per unit.

As Ken mentioned, our reported GAAP net income includes $6 million of noncash gain related to an increase in the fair value of our interest rate swap portfolio during the second quarter, which is reported within interest expense on our statement of operations.

Changes in the fair value of our interest rate swap portfolio will cause variability in our reported net income in periods of interest rate volatility, such as we have seen in the first half of 2023.

Such noncash fair value adjustments are deducted from net income for purposes of calculating our CAD and is the main difference between our GAAP net income of $0.85 per unit and CAD of $0.62 per unit.

These second quarter results include investment income of $2.1 million and a $7.3 million gain on the sale of our Vantage at Conroe investment, which contributed approximately $0.37 per unit to net income and CAD after related expenses and Tier 2 income allocable to our general partner.

This is the third Vantage property sale in 2023 which, when combined on a year-to-date basis, contributed approximately $0.95 per unit of net income in CAD, after related expenses and Tier 2 income allocable to our general partner.

Our book value per unit as of June 30 was, on a diluted basis, $15.06, which is a decrease of $0.06 from March 31. The decrease is primarily a result of our increasing unit count from the $0.07 per unit distribution declared in the form of additional units that we have applied on a retrospective basis.

As of market close yesterday, August 2, our closing unit price on the New York Stock Exchange was $15.90, which is a 5.5% premium over our net book value per unit as of June 30.

We regularly monitor our liquidity to both take advantage of accretive investment opportunities and to protect against potential debt deleveraging events, if there are significant declines in asset values.

As of June 30, we reported unrestricted cash and cash equivalents of $59.2 million, and we also had $77.5 million of additional availability on our secured lines of credit. At these levels, we believe that we are well-positioned to fund our current financing commitments, which I will discuss later in this presentation.

We regularly monitor our overall exposure to potential increases in interest rates through an interest rate sensitivity analysis, which we report quarterly and is included on Page 97 of our Form 10-Q.

The interest rate sensitivity table shows the impact to our net interest income given various scenarios of changes in market interest rates and other various management assumptions. These scenarios assume that there is an immediate rise in interest rates and that we do nothing in response for 12 months.

The analysis based on those assumptions shows that an immediate 200 basis point increase in rates, as of June 30, that is sustained for a 12-month period will result in a decrease of approximately $1.4 million in our net interest income and CAD, which is approximately $0.06 per unit. We believe this level of exposure is very low in comparison to our reported net income of $1.45 per unit, year-to-date.

I'd now like to share current information on our debt investments portfolio, consisting of mortgage revenue bonds, governmental issuer loans and property loans. These assets totaled $1.35 billion, which is consistent with March 31 levels. Such investments represent 82% of our total reported assets.

We currently own 83 mortgage revenue bonds that provide permanent financing for affordable multifamily properties across 12 states. Of these mortgage revenue bonds, 32% of our portfolio value relates to properties in Texas, 25% in California and 20% in South Carolina.

The reported value of our mortgage revenue bond portfolio increased by $39 million from March 31 due to approximately $51 million of principal advances during the second quarter, offset by approximately $12 million of mark-to-market unrealized losses.

We currently own 12 governmental issuer loans that finance the construction or rehabilitation of affordable multifamily properties, across six states. Alongside our governmental issuer loan, we will also commit to fund an additional property loan that shares the first mortgage lien. And our property loans typically fund after construction advances under the governmental issuer loans are completed.

During the second quarter, we advanced funds totaling $32.6 million for our governmental issuer loan, taxable governmental issuer loan and property loan commitments. In June 2023, we completed the first conversion of one of our governmental issuer loan investments to permanent financing by Freddie Mac.

The Oasis at Twin Lakes governmental issuer loan was purchased by Freddie Mac pursuant to its forward purchase commitment at par value. In addition, our related property loan was repaid at par.

Redemption proceeds for the governmental issuer loan and property loan totaled $58 million, of which $52 million was used to pay off our related Tender Option Bond, or TOB debt financing.

In July 2023, a second governmental issuer loan investment, Hope on Broadway, was similarly converted and was purchased by Freddie Mac at par. We received proceeds of $13.2 million, of which $9.7 million was used to pay off our related TOB debt financing.

In total, our mortgage revenue bonds, governmental issuer loan and related debt investments have outstanding future funding commitments of approximately $333 million, as of June 30.

These commitments will be funded over approximately 24 months and will add to our income-producing asset base. We also expect to receive redemption proceeds from our existing construction financing investments nearing maturity. That capital will be redeployed into our remaining funding commitments.

We adopted the Accounting Standards Update 2016-13, or the CECL standards, effective January 1, 2023, which materially impacted our reserve methodology for our governmental issuer loans, property loans and related investment funding commitments.

We reported a negative provision for credit loss of $774,000 for the second quarter, largely driven by the reduced weighted average life of our investment portfolio.

We have added back the impact of the provision for credit losses in calculating CAD, consistent with our historical treatment of loss allowances.

Turning to our joint venture equity investments portfolio. The portfolio consisted of 10 properties as of June 30, with a reported carrying value of approximately $106 million, exclusive of one investment, Vantage at San Marcos, that is reported on a consolidated basis.

We advanced additional equity under our current funding commitments totaling $3.7 million during the second quarter.

As Ken mentioned, in July 2023, we closed on a new $16.5 million equity commitment to fund construction of a multifamily property in Huntsville, Alabama, which represents an expansion of our JV equity portfolio.

Our debt financing facilities used to lever our investments as an outstanding principal balance totaling approximately $1.15 billion , as of June 30. This is up just slightly from $1.14 billion as of March 31.

We manage and report our debt financings in four major categories on Page 91 of our Form 10-Q. The first category is fixed rate debt associated with fixed rate assets and represents $261 million, or 23% of our total debt financing. As both asset and debt rates are fixed rate, our net return is not generally impacted by changes in either short-term or long-term market interest rates.

The second category is variable rate debt associated with variable rate assets and represents $376 million, or 32% of our total debt financing. Variable rate indices and floors will vary, but we have effectively protected ourselves against rising interest rates through this mass funding approach, without the need for separate hedging instruments.

The third category is variable rate debt associated with fixed rate assets that have been hedged via SOFR-denominated interest rate swaps. These interest rate swaps limit our exposure to increased funding costs resulting from rising short-term interest rates. This category accounts for $365 million, or 32% of our total debt financing. We received net cash payments on our interest rate swaps totaling $1.3 million during the second quarter.

The fourth and final category is variable rate debt associated with fixed rate investments with no designated hedging, which is where we are most exposed to interest rate risk in the near-term. This category only represents $153 million, or 13% of our total debt financing. We regularly monitor our interest rate risk exposure for this category and may implement hedges in the future, if considered appropriate.

We entered into three additional interest rate swap transactions in the second quarter, and we will continue to evaluate hedging positions to take advantage of the inversion in the yield curve and to systemically fix our interest costs for the new debt investments.

On the preferred unit front, we issued $10 million of new Series A1 preferred units to an existing preferred investor in June 2023. We continue to pursue issuing additional preferred units under our active offerings for both our Series A1 and Series B preferred units.

I'll now turn the call over to Ken for his update on market conditions and our investment pipeline.

Ken Rogozinski
Thanks, Jesse. Conditions in the muni market for the first half of 2023 were much improved versus 2022.

The Bloomberg municipal index posted a total return of 2.7% in the first half. The high-yield municipal index generated a total return of 4.4% for the first half. From a market technicals perspective, while fund flows were still negative for the first half of 2023 at minus $8 billion, pace has slowed significantly from 2022's record $122 billion in outflows.

The biggest technical story, so far this year, has been the lack of new issue supply. According to Barclays, first half supply was $172 billion, 21% lower than the same period, last year. New money issuance is 26% lower than the first half of 2022.

As of yesterday's close, 10-year MMD is at 2.61% and 30-year MMD is at 3.62%, roughly 25 and 22 basis points higher yield, respectively, than at the time of last quarter's call. With the inversion in the yield curve, 10-year MMD is actually the low point of the current muni yield curve.

The 10-year muni-to-treasury ratio was approximately 65%, at the lower end of its historic range. Continued volatility in rates, the magnitude of the interest rate increases in the past 12 months, particularly in the short end of the curve, and cost inflation have presented challenges to our developer clients on new transactions.

The interest cost of new construction financing at 30-day SOFR plus 350 basis points is approaching 9% after the latest Fed rate hike announced, last week.

Our affordable housing developer clients are needing to rely more and more on governmental subsidies and other sources of soft money to make their transactions financially feasible.

We will continue to work with our clients to deliver the most cost-effective cash flow possible, especially the use of the Freddie Mac tax-exempt loan forward commitment and associated with our construction financing.

Given the multiples of invested capital returns we have realized on the six JV equity investment sales that have closed over the last 18 months, we will continue to look for other opportunities to deploy capital in this strategy. We believe that getting new projects underway now while other sponsors face significant challenges will put us in a better position for success with our exits three to five years down the road when new supply may be limited.

We believe that our two new JV equity investments completed year-to-date are reflective of that approach.

With that, Jesse and I are happy to take your questions.

Operator
Thank you. Ladies and gentlemen, the floor is now open for questions. If you do have a question, please press "*", "1" on your telephone keypad, at this time. Once again, that's "*", "1" if you do have a question or comment.

And we'll take our first question from Matthew Erdner from JonesTrading. Please go ahead, Matthew.

Matthew Erdner
Hey, yeah, thanks for taking the question. You mentioned an increase in opportunities on the JV side that you guys are seeing. Do you think that given the bank's pullback in lending in the commercial space will provide some opportunities on the mortgage revenue bond in the GIL side?

Ken Rogozinski
Thanks for your question, Matt. We've definitely seen some changes in the construction lending environment since the start of the year, particularly with the stress that the regional banks have seen starting in March with the failures of Signature and Silicon Valley Bank. From my perspective, historically, regional banks have been some of the most active multifamily real estate construction lenders.

So, on the JV equity side, as we look at opportunities there, we certainly have had to make adjustments there in looking at those investment opportunities about lower expected proceeds levels from our third-party construction lenders going forward there.

So, that certainly had an impact on the potential level of equity that we would need to commit as a JV partner on those transactions and also have to be careful as we look at the expected returns on those situations with lower construction loan leverage.

On the traditional mortgage revenue bond and governmental issuer side, we have certainly seen from those same regional banks a pullback in their appetite. While historically most of that lending activity has been CRA, or Community Reinvestment Act-driven, we are seeing more opportunities there as banks are being more selective and are, particularly, lowering their loan-to-one borrower limits in the traditional affordable multifamily space. So, I think from that side of the coin, we're seeing more opportunities open to us from a lending perspective.

Matthew Erdner
Yeah, that’s helpful. And then going back to the JV, the multifamily there, could you talk a little bit about what you're seeing on the expense side, whether that be insurance, G&A, utilities, as what you guys are hearing from Vantage at the current properties? Thanks.

Ken Rogozinski
Yes. I think what we're seeing not only in our portfolio, Matt, but what we're hearing from our colleagues on the Greystone and the Cushman & Wakefield platforms is that, on a couple of fronts, we're seeing significant increases in both insurance expenses, as well as in some local jurisdictions’ property taxes. Those properties that are located in locations that have historically been, I think, higher risk from a hazard insurance perspective, places like Florida and the Gulf Coast, we have seen increases in insurance premiums there.

So I think that's something we're certainly keeping an eye on with our Freestone and Vantage JV partners. We're looking to take strategies there to help minimize the insurance expense wherever possible, but that's certainly something that we're going to have to keep an eye on as we move forward, evaluating investment opportunities in those markets.

Matthew Erdner
That’s helpful. Thanks for taking the questions.

Operator
Thank you. And we'll take our next question from Chris Muller from JMP Securities. Please go ahead, Chris.

Chris Muller
Great. Thanks for taking the question. So, I wanted to ask about the Freddie Mac forward purchase. Can you guys talk about the mechanics of this program? And seeing the $58 million close there versus your normal GIL investments, does this create a bigger opportunity for GILs going forward? Thanks.

Ken Rogozinski
Thanks, Chris. So mechanically, in terms of the way that the process works, when we close one of our governmental issuer loan and property loan transactions where the permanent financing is going to be the Freddie Mac TEL, the way that it works is that at the time that we close our construction loan, we actually have a fully underwritten, fully approved and rate-locked forward commitment from Freddie Mac on the take-out there.

And that is really the key from our perspective in terms of our comfort level with the construction lending, is that Freddie Mac does provide that long-term forward rate lock on the fixed rate takeout perm financing.

So, one of the reasons that we're, I think, bullish from a credit and return perspective on that sort of versus a lot of your traditional real estate construction lending is the presence of that rate lock forward commitments there.

So, we don't have to worry at all about what rates do over the construction and stabilization period because we know that the loan has been fully underwritten and fully credit approved and is rate locked. So, that takes a lot of risk off the table from our perspective as the construction lender, and it's one of the reasons that we're such a big fan of that product type.

And it's why, when we look at construction lending opportunities going forward, we always do our best to work in collaboration with our Greystone colleagues to see what we can do to be able to come up with something like that.

The alternative is the longer-term fixed rate at rehab or construction financing that we've done. I think we talked on our last call about the four deals in South Carolina we closed at the end of 2022 and into January of this year where we're doing a longer tenor fixed rate construction financing there, which is a little more difficult for us to hedge from an interest rate perspective because we've got fixed rate assets with floating rate funding.

So, we do have to take the extra step there of hedging that funding risk on those assets as opposed to being able to utilize the floating rate construction financing to the Freddie TEL forward that we've done on the GILs and the associated property loans.

Chris Muller
That's very helpful. Thank you. And I guess a follow-up on the JV question. So, this is the third JV group that you guys have now you're working with. Does this new group focus on similar asset types or geographies?

Ken Rogozinski
The Camden Securities Company is a multigenerational real estate owner-operator-developer. They are a little more diversified from our historic JV relationships. We've been focused almost exclusively on multifamily. They do some retail development, and they have also done development in other mixed-use property types.

I think from our perspective, the two things that we really look for are, number one, someone who's got a long-standing track record that we can develop what we believe to be a programmatic relationship with. We're not looking for one-off transactions with a bunch of different sponsors trying to run our JV equity investment business on that basis would just be too difficult.

But the benefit that Camden brings to the table to us is that their focus is on the Southeast, which I think as we look at some of the successes that we've had, like with the Vantage at Murfreesboro sale, we're looking to deploy more capital in markets that are geographically diverse from the traditional Vantage Freestone footprint in Texas. So, that's their area of focus currently from a multifamily perspective. We're very excited about the opportunity in the Huntsville market and are looking forward to, hopefully, seeing more investment opportunities with Camden in their core markets in the Southeast.

Chris Muller
Great. Very helpful. I appreciate you taking the questions.

Ken Rogozinski
Thanks, Chris.

Operator
Once again, that's "*", "1" if you do have a question or a comment. And we'll take our next question from Patrick Marsh from Alex Brown. Please go ahead, Patrick.

Patrick Marsh
Good morning, Ken, how are you?

Ken Rogozinski
Hi, Patrick.

Patrick Marsh
Just two, I guess, kind of questions that'll kind of, I think, come together. One, on this forward program you're working with the agencies, is the fixed rate component of that higher than today? With the yield curve inverted, I'm just curious if it's flat or lower. I'm just wondering how developers look at that.

But then the second question is, I think, a little bit more pertinent, going forward, is just, as you mentioned, you guys have got some partners that are still active. Is that going to, you think, continue through the rest of this year and early next year vis-a-vis the rest of the market? Do you see the rest of the market slowly starting to open up again, given the early part of '23 has been better than '22 was?

Ken Rogozinski
A couple of responses for you, Patrick. With regard to the Freddie Mac product, even though the yield curve is inverted there, at least currently, is spread between what you would see as an agency immediate delivery execution.

So, if you pretended that the project was stabilized today and you were going to do an immediate funding as opposed to the unfunded forward that we get from Freddie where we're a construction lender, there is some differential there with the immediate delivery product being lower in cost than the rate lock that we normally see associated with the Freddie TEL forward product. So that's just kind of the current state of pricing from Freddie at this point in time.

Patrick Marsh
That's good for the fund, right?

Ken Rogozinski
I think from our perspective, we're sort of indifferent because Freddie Mac really doesn't have a construction lending product. So they're not competing with us on that basis. So I think it's just the reality of the interest rate risk management from Freddie Mac's perspective that there is some premium to the spot market for the forward commitment.

But at least, in my experience, it is not a sort of significant premium that would prohibit their product from being competitive versus the other perm financing options that are available out there to project sponsors.

In terms of your question about kind of investments over the balance of the year on the JV equity side, we are continuing to work with our relationships to evaluate and look at both deals that they have currently in their pipeline and future investment opportunities. So, we still see good velocity there.

Patrick Marsh
Great, thanks.

Operator
As a reminder, that's "*", "1" if you do have a question or a comment. And we'll take our next question from Ronald Lane from ValueForum. Please go ahead, Ronald.

Ronald Lane
Hey, gentlemen. I wasn't planning to call with a question, but I'm curious about something. I'm with the 575-member investment group called ValueForum.

I remember when you did the reverse split some time ago, and I got the impression that part of it was due to your expansion into some investing, the institutional investing, I guess you'd call it. Am I getting that part right? I know the price went up, the shares went down, and it was something you wanted the higher price to the institutional holders.

Ken Rogozinski

Yeah, it wasn't really based on our investment strategy, Ron. It was really one of the factors that went into the Board's decision about implementing the reverse split was to, I think, open up the possibility of attracting more institutional capital based on where the share price had historically been versus what you see from a lot of institutional investors in terms of their basic screening process in terms of an absolute minimum dollar price per share that needs to be achieved for it to kind of to hit their sort of parameters for potential investment.

So yes, that was one of the factors that went into the Board's decision-making on that front.

Ronald Lane
Right. We've held the old Apex since February of 2014. So, it's been a fun journey of about nine and a half years. My question is, does anyone have just an idea, a guesstimate in terms of total number of shareholders, not how many shares they have? Or you can even do the total number of shares. What the percentage is of institutional versus retail? Anyone ever taken a look at? Just curious.

Jesse Coury
Hi, Ron. We look at that on an annual basis. We typically get a list of all of our unitholders when we go to issue our K1s at the end of the year. In terms of total number of unitholders that, at any point in time, is give or take around 16,000 individual unitholders.

But in terms of institutional unitholders, we're still predominantly retail shareholders, and I would put the split somewhere in the 90% retail to 10% institutions.

Ronald Lane
So you're about 90% retail, about 10% institutional, and you have 16,000 shareholders between the two.

Jesse Coury
Correct. Yeah, around 16,000 unitholders.

Ronald Lane
Looking back at that, are you pleased with the way that turned out? It's not a loaded question. It really isn't. I have no follow-up to that. I was just curious, looking back at it. I know a lot of retail investors were very much against the reverse split. Well, if I complained to you and other people because typically, when a reverse split is done, it's done for some negative reasons, as you know.

And I know you didn't do it for that reason; you did it to attract institutional. But just looking back at it now, is it something that you are pleased with the way it worked out?

Ken Rogozinski

Ron, it's Ken. I mean, I think from my perspective, the answer to that is yes. We still have yet to complete any follow-on equity offering since that reverse split happened. I think if you'll recall that the September 2021 last offering that we did was before the split. So, it's kind of hard to judge the institutional investor appetite for our units other than as Jesse sort of related, what we could pick up vis-a-vis secondary market trading from our annual unitholder review.

But that is certainly our goal is to broaden and deepen the demand for our units, both in the primary and the secondary market, and we're going to continue to do everything that we can on our front to press forward with that.

Ronald Lane
Good. I wish you well, I really do. Rooting for you. Thank you.

Operator
Thank you. And next we'll go to John Baum. Please go ahead, John.

John Bowen
Hi. I've been a unit holder since 2010, and I am questioning the allocation between normal CAD distributions from operations and the bump-up you get from capital gains from your JV. I know there was a presentation in the Investor Relations summary going back maybe three, four years with the differentiations on the bar graph between CAD normal and then CAD including the capital gains from the JV equity. Has that been added? And how does the Board, if I could ask that, review your capital gain from the JV investments versus normal operations? Thank you.

Jesse Coury
So John, I believe you're referring to a bar graph that was in our report, our supplemental quarterly report a few years back. We haven't presented that table in quite some time. I think the transition and reporting has been to not differentiate between the JV and the overall performance of the fund. The Board kind of looks at it all as one bucket when trying to determine distributions on a quarterly and annual basis.

Ken Rogozinski
John, it's Ken. I think the only thing that I would add there is, again, we said this in the past, is that we don't tend to look at things on a quarter-over-quarter basis due to the lumpiness of the capital gains associated with individual assets.

So that, you may see there are quarters where we have significant capital gain activity and you kind of compare that versus the distribution, that we tend to look at things more both from a management perspective and in discussions with the Board on an annualized basis.

Just to echo Jesse's comments, from a management perspective, we have capital invested in both segments, both in the JV equity and in our fixed income investment portfolio. And so, we don't differentiate in terms of whether income is net interest income or preferred return or capital gain. We're really looking at the overall earnings power of the portfolio and the amount of capital that we have deployed in the different strategies. Overall, the level of income across those three different types that the Board evaluates in making the determinations about just to be (inaudible).

John Bowen
Okay, but to put a finer point on that, if you have a capital gain in one out of four quarters, does that get averaged into the CAD calculation? I'm trying to get back into the Board's thinking about how do you evaluate capital gains on a one in four quarter or one in six quarter basis into CAD. I mean, it's difficult to ascertain that from a unitholder's perspective. Go ahead.

Jesse Coury
Yeah, so the Board generally sets distributions based on factors they consider relevant. I would say our experience has been that the Board tends to look at four quarters in a calendar year when setting distributions because that mirrors the tax reporting for our unitholders.

So, what we and the Board attempt to do is to avoid a big tax implication to our unitholders in a year when there's high taxable gains from the JV equity portfolio, but avoid having lower distributions when we know our unitholders are going to have a tax payment to make. So that is a consideration of management and the Board when setting the distribution level, is the taxable nature of some of these gains that flow through to unitholders.

Ken Rogozinski
But in terms of the actual reporting of CAD, that's reported in the quarter when the actual transaction occurs. So there's no smoothing of that over quarters. As you saw from this quarter, we, in the second quarter, did have, for CAD purposes, a report of the gain on sale associated with the (inaudible).

John Bowen
Fair enough. You're talking to a unitholder, since 2010. I've been through all the ups and downs. Finally, I guess, to put of finer point on it, what is the thinking behind a proportion of the dividend distribution being in shares versus cash?

Ken Rogozinski
Yeah, I think there, John, as the Board looks at the sources of income that we have and looks at the investment opportunities that we're presenting as a management team, I think consistent with the approach that you saw the Board take last year with, I believe, it was three supplemental distributions, two of which that were made in the form of additional units, that that approach, I believe, works well from their perspective.

It does deliver true economic value to the unitholders in the form of those additional units but, at the same time, strikes the right balance in terms of the partnership's capital base and its ability to take advantage of new accretive investment opportunities.

John Bowen
Thank you.

Operator
As a reminder, "*", "1" if you do have a question or a comment. And there appear to be no further questions at this time. I'll turn the floor back over to Ken for closing remarks.

Ken Rogozinski
Thank you very much, everyone, for joining us today. We look forward to speaking with everyone again next quarter.

Operator
Thank you. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time, and have a great day.